

# TK Group (2283 HK)

## 1H24 beat on strong margins; Positive outlook for wearables/AR&VR in 2H24/FY25E

TK Group's 1H24 revenue/net profit growth of 18%/46% is slightly ahead of its earlier positive profit alert of 40%+ YoY earnings growth. The strong results were driven by CE/communications demand recovery, GPM expansion and prudent expense control. We spoke with the mgmt. post earnings, and mgmt. reiterated a positive view on FY24/25E outlook, backed by demand recovery from CE customers, new client/order wins and margin improvement. We adjust TP to HK\$2.82 based on the same 8.2x FY24E P/E. Trading at 5.2x FY24E P/E with 8% yield, we think the stock offers attractive risk/reward. Maintain BUY.

■ **1H24 results beat on demand recovery and strong margins.** TK posted 1H24 revenue/net profit growth of 18%/46% YoY, with the latter above its earlier profit preview of 40%+ YoY growth, backed by product launches and re-stocking demand of CE/communications customers and improved GPM to 24.8% (vs 23.3% in 1H23) on higher utilization and production efficiency. In terms of revenue by segment, **1) mobile & wearables** (Jabra, Sonos, Fibit, Tonly) increased 51% YoY, **2) communications** (Poly) increased 44% YoY, **3) smart home** (Amazon, Google) improved 8% YoY, **4) medical devices** (Philips) dropped 8% YoY, **5) automobile segment** dropped 11% YoY, and **6) other products** grew 22% YoY (-7% YoY for e-cigarettes). Projects-on-hand by 1H24 amounted to HK\$ 1.07bn (+24% YoY).

■ **FY24/25E outlook: continued CE market recovery, new order wins and capacity ramp-up.** Mgmt. guided a positive outlook on revenue/margin in 2H24E, backed by order wins in earphones (Sonos/Fibit/Jabra) and AR&VR (Meta smart glasses), inventory restocking (Poly) and market recovery in consumer electronics (360-cam). Overall, we estimate TK's revenue/net profit to deliver 25%/39% YoY growth in FY24E. TK also issued an interim dividend of HKD 0.04 per share (+42.9% YoY), implying dividend payout of 42%. Mgmt. also reiterated conservative Capex in FY24E and planned to maintain a high dividend payout ratio in FY24E (vs 82.8% dividend payout in 2023).

■ **Attractive valuation at 5.2x/4.1x FY24/25E P/E and 8%/11% yield in FY24/25E; Maintain BUY.** We adjust our TP to HK\$2.82 based on the same 8.2x FY24E P/E, in-line with the stock's 5-year historical forward P/E. Trading at 5.2x/4.1x FY24/25E P/E, we think the stock is attractive considering 8%/11% yield and 39%/26% EPS growth in FY24/25E. Maintain BUY. Catalysts include product launches from Meta/Jabra/Fibit/Amazon, and continued margin improvement.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	2,279	1,946	2,422	2,793	3,227
YoY growth (%)	(5.2)	(14.6)	24.5	15.3	15.5
Net profit (HK\$ mn)	226.9	204.2	284.3	356.8	419.4
YoY growth (%)	(19.6)	(10.0)	39.2	25.5	17.6
EPS (Reported) (HK\$)	0.27	0.25	0.34	0.43	0.51
YoY growth (%)	(19.6)	(9.8)	39.2	25.5	17.6
P/E (x)	6.5	7.2	5.2	4.1	3.5
P/B (x)	0.9	0.9	0.8	0.7	0.6
Yield (%)	6.5	11.6	8.2	11.0	12.9
ROE (%)	14.1	12.4	16.1	18.3	19.4

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$2.82**  
 (Previous TP) **HK\$2.79**  
**Up/Downside** **59.2%**  
**Current Price** **HK\$1.77**

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### Stock Data

Mkt Cap (HK\$ mn)	1,465.5
Avg 3 mths t/o (HK\$ mn)	0.5
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%

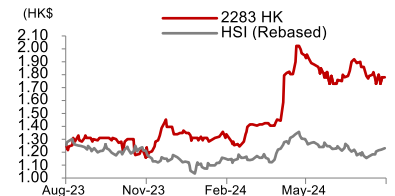
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-5.9%	-10.3%
3-mth	-9.1%	-4.2%
6-mth	32.2%	24.2%

Source: FactSet

### 12-mth Price Performance



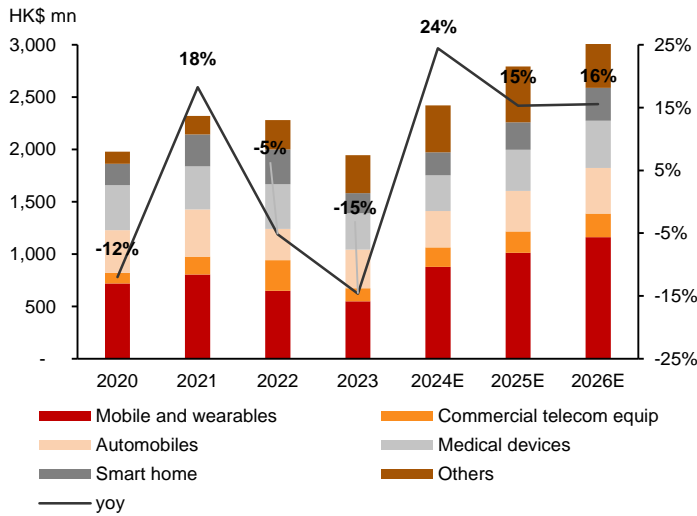
Source: FactSet

### Related report:

- TK Group (2283 HK)-Positive profit alert in 1H24E; Strong order momentum to continue into 2H24/FY25E ([link](#))
- TK Group (2283 HK) - 1H23 weakness amid industry headwinds; positive on margin recovery in 2H23/FY24 ([link](#))

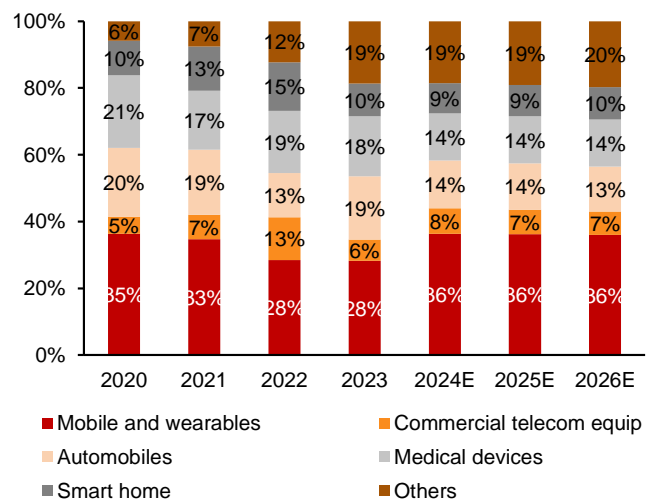
## Focus Charts

Figure 1: TK Group revenue trend



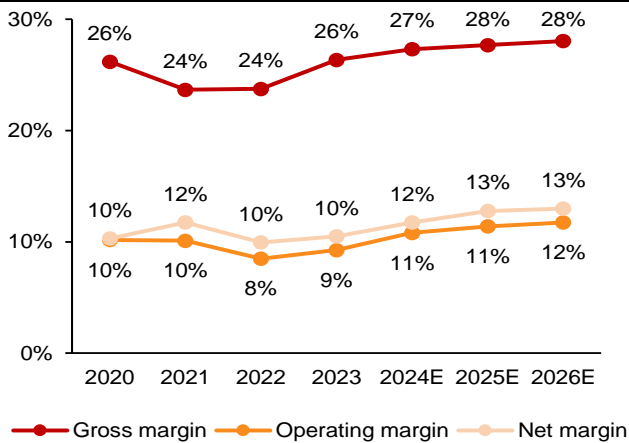
Source: Company data, CMBIGM estimates

Figure 2: TK Group revenue mix



Source: Company data, CMBIGM estimates

Figure 3: TK Group margin trend



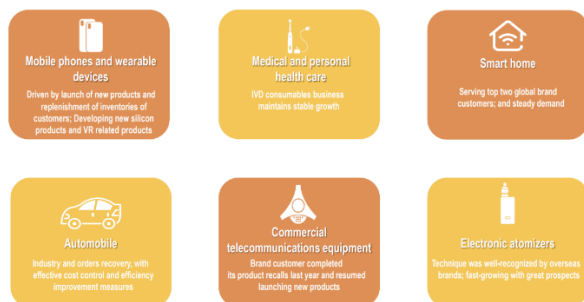
Source: Company data, CMBIGM estimates

Figure 4: 1H24 top six customers details

#	Company name	Industry	Product category
1	Poly	Communications equipment	Mold and plastic products
2	A leading healthcare product brand	Medical and health care	Mold and plastic products
3	A leading wireless headset brand	Mobile phones and wearable devices	Mold and plastic products
4	A leading headset brand	Mobile phones and wearable devices	Mold and plastic products
5	A leading smoking cessation products solution provider	Electronic atomizers	Mold and plastic products
6	A global leading professional audio solution provider	Mobile phones and wearable devices	Mold and plastic products

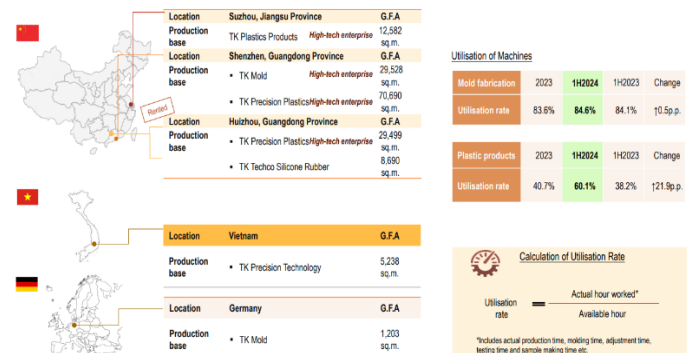
Source: Company data, CMBIGM

Figure 5: Key areas to drive future growth



Source: Company data, CMBIGM

Figure 6: TK Group global production footprint



Source: Company data, CMBIGM

## 1H24 Results Review

Figure 7: 1H24 results review

HK\$ mn	1H23	Actual 1H24	YoY	CMBIGM 1H24E	Diff (%)
Revenue	856	1,007	17.7%	1,025	-1.8%
Gross profit	200	250	25.2%	249	0.4%
Operating profit	48	80	66.1%	63	26.9%
Net profit	55	80	45.8%	77	3.1%
EPS (HK\$)	0.07	0.10	46.0%	0.09	3.1%
Gross margin	23.3%	24.8%	1.5 ppt	24.3%	0.5 ppt
Operating margin	5.6%	8.0%	2.3 ppt	6.2%	1.8 ppt
Net margin	6.4%	7.9%	1.5 ppt	7.5%	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 8: TK Group revenue breakdown

HK\$ mn	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Mobile phones and wearables	648	550	326	553	879	1011	1163
...YoY	-19%	-15%	51%	66%	60%	15%	15%
Household electrical appliances	-	-					
...YoY	-	-					
Medical devices	427	350	143	200	343	394	453
...YoY	4%	-18%	-8%	3%	-2%	15%	15%
Commercial telecom equipment	293	124	90	96	186	204	225
...YoY	72%	-58%	44%	56%	50%	10%	10%
Automobiles	301	369	144	203	347	388	435
...YoY	-34%	23%	-11%	-2%	-6%	12%	12%
Smart home	331	190	100	119	219	262	315
...YoY	8%	-43%	8%	22%	15%	20%	20%
Digital devices	-	-					
...YoY	-	-					
Others	280	364	205	244	449	533	637
...YoY	60%	30%	22%	24%	23%	19%	20%
Electronic atomizers	126	205	96	99	195	253	329
...YoY	27%	63%	-7%	-3%	-5%	30%	30%
Total	2,279	1,946	1,007	1,415	2,422	2,793	3,227
...YoY	-5%	-15%	18%	30%	24%	15%	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	2,422	2,793	3,227	2,339	2,705	3,135	4%	3%	3%
Gross profit	661	773	905	636	720	848	4%	7%	7%
Operating profit	262	318	379	248	293	359	6%	9%	6%
Net profit	284	357	419	281	335	399	1%	7%	5%
EPS (HK\$)	0.34	0.43	0.51	0.34	0.40	0.48	1%	7%	5%
Gross margin	27.3%	27.7%	28.0%	27.2%	26.6%	27.0%	0.1 ppt	1.1 ppt	1 ppt
Operating margin	10.8%	11.4%	11.7%	10.6%	10.8%	11.4%	0.2 ppt	0.6 ppt	0.3 ppt
Net Margin	11.7%	12.8%	13.0%	12.0%	12.4%	12.7%	-0.3 ppt	0.4 ppt	0.3 ppt

Source: Company data, CMBIGM estimates

Figure 10: P&L forecast

HK\$ mn	FY22	FY23	1H24	1H24E	FY24E	FY25E	FY26E
Revenue	2,279	1,946	1,007	1,415	2,422	2,793	3,227
...YoY	-5.2%	-14.6%	17.7%	29.8%	24.5%	15.3%	15.5%
Cost of sales	-1,738	-1,433	(757)	(1,003)	(1,760)	(2,019)	(2,322)
Gross profit	541	513	250	411	661	773	905
GPM (%)	23.7%	26.4%	24.8%	29.1%	27.3%	27.7%	28.0%
...YoY	-4.9%	-5.3%	25.2%	31.4%	29.0%	16.9%	17.0%
SG&A	-348	-333	(170)	(230)	(400)	(455)	(526)
...% of rev	15.3%	17.1%	16.9%	16.2%	16.5%	16.3%	16.3%
Operating profit	194	180	80	182	262	318	379
OPM (%)	8.5%	9.3%	8.0%	12.8%	10.8%	11.4%	11.7%
...YoY	-20.3%	-6.9%	66.1%	37.7%	45.3%	21.5%	19.1%
Net profit	227	204	80	205	284	357	419
NPM (%)	10.0%	10.5%	7.9%	14.5%	11.7%	12.8%	13.0%
...YoY	-19.6%	-10.0%	45.8%	36.8%	39.2%	25.5%	17.6%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP HK\$2.82

Our new TP of HK\$2.82 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.

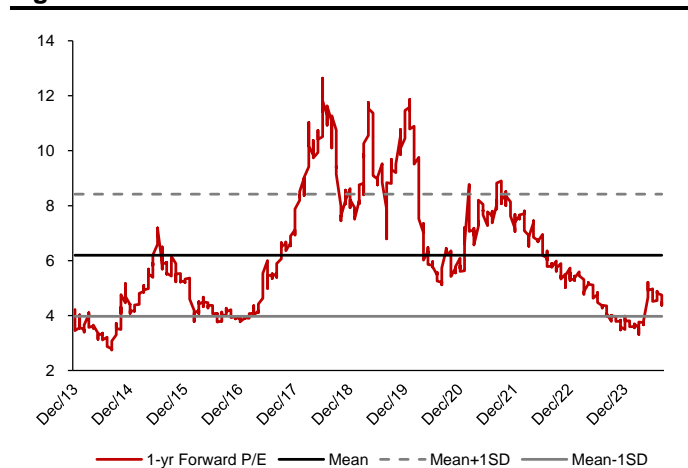
Upcoming catalysts include Meta VR, Google/Amazon smart home products and global e-cigarette customer product rollouts, and margin recovery with better utilization. Major risks include slower demand recovery and a weak macro environment.

**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	189	1.77	2.82	59%	5.2	4.1	0.8	0.7	16.1	18.3
Tongda	698 HK	BUY	94	0.08	0.13	76%	4.7	3.4	0.1	0.1	2.2	2.9
BYDE	285 HK	BUY	8,738	30.25	45.28	50%	12.1	8.9	3.3	2.6	27.0	29.2
<b>Average</b>							<b>7.3</b>	<b>5.6</b>	<b>1.4</b>	<b>1.1</b>	<b>14.8</b>	<b>16.1</b>

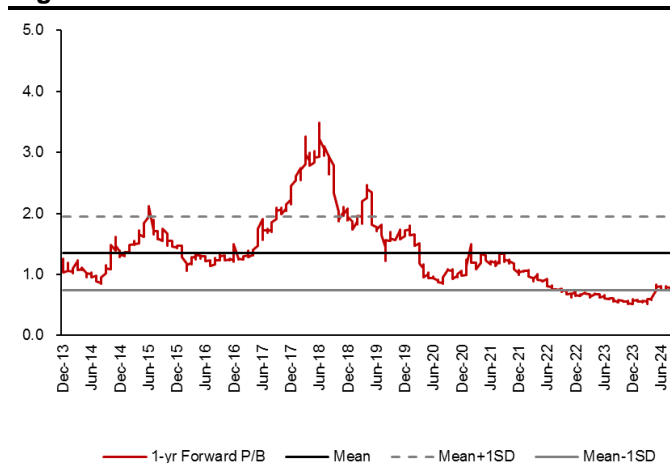
Source: Bloomberg, CMBIGM estimates

**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)						
<b>Revenue</b>	<b>2,404</b>	<b>2,279</b>	<b>1,946</b>	<b>2,422</b>	<b>2,793</b>	<b>3,227</b>
Cost of goods sold	(1,835)	(1,738)	(1,433)	(1,760)	(2,019)	(2,322)
<b>Gross profit</b>	<b>569</b>	<b>541</b>	<b>513</b>	<b>661</b>	<b>773</b>	<b>905</b>
Selling expense	(79)	(67)	(57)	(73)	(84)	(97)
Admin expense	(247)	(281)	(275)	(327)	(371)	(429)
<b>Operating profit</b>	<b>243</b>	<b>194</b>	<b>180</b>	<b>262</b>	<b>318</b>	<b>379</b>
Other income	52	45	48	53	61	71
Other gains/(losses)	11	10	6	5	0	0
Share of (losses)/profits of associates/JV	1	(2)	(8)	2	0	0
Interest income	25	23	23	29	33	35
Interest expense	(6)	(10)	(12)	(2)	0	0
<b>Pre-tax profit</b>	<b>325</b>	<b>259</b>	<b>237</b>	<b>347</b>	<b>412</b>	<b>485</b>
Income tax	(42)	(32)	(33)	(62)	(56)	(65)
<b>Net profit</b>	<b>282</b>	<b>227</b>	<b>204</b>	<b>284</b>	<b>357</b>	<b>419</b>
Net dividends	117	95	169	119	161	189

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
<b>Current assets</b>	<b>2,127</b>	<b>2,007</b>	<b>1,871</b>	<b>2,511</b>	<b>2,680</b>	<b>3,026</b>
Cash & equivalents	1,028	1,114	1,158	1,645	1,741	1,897
Restricted cash	1	0	0	0	0	0
Account receivables	417	343	353	358	450	472
Inventories	496	392	360	508	488	657
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	185	157	0	0	0	0
<b>Non-current assets</b>	<b>724</b>	<b>691</b>	<b>581</b>	<b>604</b>	<b>640</b>	<b>717</b>
PP&E	528	486	412	436	472	548
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)
<b>Total assets</b>	<b>2,851</b>	<b>2,698</b>	<b>2,452</b>	<b>3,115</b>	<b>3,320</b>	<b>3,744</b>
<b>Current liabilities</b>	<b>964</b>	<b>916</b>	<b>678</b>	<b>1,047</b>	<b>1,042</b>	<b>1,219</b>
Short-term borrowings	123	286	26	148	164	182
Account payables	399	349	335	458	420	558
Tax payable	26	4	20	51	59	68
Other current liabilities	71	0	0	93	102	114
Lease liabilities	81	75	68	68	68	68
Contract liabilities	264	201	229	229	229	229
<b>Non-current liabilities</b>	<b>265</b>	<b>176</b>	<b>88</b>	<b>218</b>	<b>232</b>	<b>248</b>
Long-term borrowings	145	61	0	130	143	159
Deferred income	61	43	37	37	37	37
Other non-current liabilities	59	72	52	52	52	52
<b>Total liabilities</b>	<b>1,229</b>	<b>1,092</b>	<b>766</b>	<b>1,265</b>	<b>1,274</b>	<b>1,467</b>
Share capital	83	83	83	83	83	83
Capital surplus	251	251	251	251	251	251
Retained earnings	1,096	1,216	1,316	1,481	1,677	1,908
Other reserves	201	70	52	52	52	52
<b>Total shareholders equity</b>	<b>1,622</b>	<b>1,606</b>	<b>1,685</b>	<b>1,850</b>	<b>2,046</b>	<b>2,277</b>
<b>Total equity and liabilities</b>	<b>2,851</b>	<b>2,698</b>	<b>2,452</b>	<b>3,115</b>	<b>3,320</b>	<b>3,744</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	325	259	237	347	412	485
Depreciation & amortization	221	227	215	133	146	133
Tax paid	(33)	(54)	(28)	(31)	(48)	(56)
Change in working capital	(168)	7	(31)	(30)	(110)	(53)
Others	12	(67)	34	2	0	0
<b>Net cash from operations</b>	<b>357</b>	<b>372</b>	<b>445</b>	<b>421</b>	<b>400</b>	<b>508</b>
<b>Investing</b>						
Capital expenditure	(109)	(144)	(69)	(157)	(182)	(210)
Acquisition of subsidiaries/ investments	(12)	(12)	0	0	0	0
Others	22	19	14	0	0	0
<b>Net cash from investing</b>	<b>(98)</b>	<b>(137)</b>	<b>(55)</b>	<b>(157)</b>	<b>(182)</b>	<b>(210)</b>
<b>Financing</b>						
Dividend paid	(112)	(95)	(95)	(119)	(161)	(189)
Net borrowings	37	32	(166)	344	39	46
Others	(78)	(79)	(89)	(2)	0	0
<b>Net cash from financing</b>	<b>(153)</b>	<b>(142)</b>	<b>(350)</b>	<b>222</b>	<b>(121)</b>	<b>(143)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	920	1,028	1,114	1,158	1,645	1,741
Exchange difference	1	(5)	3	0	0	0
<b>Cash at the end of the year</b>	<b>1,028</b>	<b>1,114</b>	<b>1,158</b>	<b>1,645</b>	<b>1,741</b>	<b>1,897</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	18.2%	(5.2%)	(14.6%)	24.5%	15.3%	15.5%
Gross profit	6.9%	(4.9%)	(5.3%)	29.0%	16.9%	17.0%
Operating profit	17.5%	(20.3%)	(6.9%)	45.3%	21.5%	19.1%
Net profit	34.7%	(19.6%)	(10.0%)	39.2%	25.5%	17.6%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	23.7%	23.7%	26.4%	27.3%	27.7%	28.0%
Operating margin	10.1%	8.5%	9.3%	10.8%	11.4%	11.7%
Return on equity (ROE)	18.7%	14.1%	12.4%	16.1%	18.3%	19.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	5.2	6.5	7.2	5.2	4.1	3.5
P/E (diluted)	5.2	6.5	7.2	5.2	4.1	3.5
P/B	0.9	0.9	0.9	0.8	0.7	0.6
Div yield (%)	7.9	6.5	11.6	8.2	11.0	12.9

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



# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
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**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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