



Rating
Hold

Asia
China

Technology
Hardware & Equipment

Company
Goertek

Reuters 002241.SZ Bloomberg 002241 CH Exchange SHZ Ticker 002241

Date
18 August 2017

Forecast Change

Price at 17 Aug 2017 (CNY)	20.58
Price target - 12mth (CNY)	20.20
52-week range (CNY)	35.13 - 16.66
Shenzhen Index	1,997

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Acoustics continue to see spec upgrades

Largely on-track and fairly priced

Goertek released solid 2Q17 results (EPS up 52% YoY) and positive 3Q17 guidance (EPS up 12% to 49% YoY). Both are largely in line with Bloomberg consensus. The firm is positive on the 2018 outlook, backed by continued acoustic upgrades (stereo, waterproof upgrade) and VR headset organic growth. We share similar views on the strong top-line growth, but remain concerned that GPM could keep trending down (on a YoY basis), as low-margin VR headsets could outgrow the component business. Retaining Hold rating.

Strong 2Q17 operating results, owing to better product mix

Goertek reported 2Q17 EPS of RMB0.14 (+52% YoY; +40% QoQ) and operating profit of RMB622mn (+53% YoY, +50% QoQ) on sales of RMB5.5bn (+41% YoY, +22% QoQ). Operating profit beat DB estimate and consensus by 21%, owing to tight opex control and GPM expansion (up 0.6ppt QoQ to 22.4% vs. DBe 21.4%). Dragged down by forex loss, EPS only came in line with expectations. Goertek attributes strong GPM to better product mix (higher contribution from acoustics). Acoustic sales (speaker/receiver, MEMS microphone, earpod) grew 65% YoY, owing to spec upgrade (water-proofing, stereo sound, Lightning connector), and market share gain, as well as a low base in 2Q16 (the weak iPhone 6S cycle). The assembly business grew 35% YoY, mainly powered by VR headset assembly, despite legacy TV/game console peripheral assembly on a YoY declining trend.

The firm delivered a positive tone for 2H17 and 2018 outlook

Goertek expects 3Q17 net profit between RMB629m (+12% YoY) and RMB 836m (+49% YoY), driven by new iPhone launch, and organic demand growth for VR headsets. The guidance is largely in line with DBe and consensus. For 2018, Goertek highlights three key growth drivers: 1) the acoustic industry will post 25%+ YoY growth, mainly driven by Android vendors playing the catch-up game, on top of mild spec upgrades from iPhone, 2) new VR headset launches from key clients (Oculus and Sony). We believe Oculus is likely to launch a standalone device that can work independently (without being tethered to a PC), and 3) rising demand for smart speakers and wireless headphones.

Valuation and investment risks

We raise our 2017-19 EPS forecasts by 5% to 6%, and accordingly raise our TP from RMB18 (22x 2017 EPS) to RMB20.2 (22x one-year FW EPS). 22x PER represents 0.8x PEG, in line with regional peers. Upside/downside risks include market share gain/loss and ASP increase/decline.

Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	13,604	19,288	25,661	31,552	37,420
DB EPS FD(CNY)	0.41	0.54	0.78	1.03	1.23
DB EPS Δ growth (%)	-24.5	32.0	43.5	32.5	19.7
ROE (%)	14.1	16.3	19.9	21.9	21.6
PER (x)	75.7	51.9	26.5	20.0	16.7

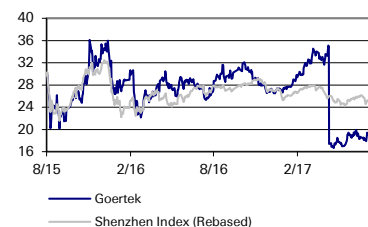
Source: Deutsche Bank estimates, company data

Key changes

TP	18.00 to 20.20	↑	12.2%
Sales (FYE)	24,433 to 25,661	↑	5.0%
Op prof margin (FYE)	11.5 to 11.9	↑	3.1%
Net profit (FYE)	2,256.2 to 2,370.2	↑	5.1%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	14.4	13.7	-24.4
Shenzhen Index	6.1	2.2	-6.6

Source: Deutsche Bank



Model updated: 18 August 2017

Running the numbers

Asia
China
Hardware & Equipment

Goertek

Reuters: 002241.SZ Bloomberg: 002241.CH

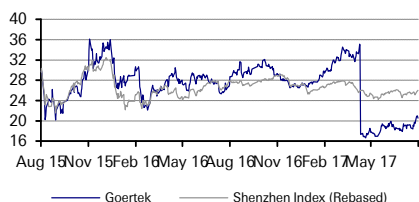
Hold

Price (17 Aug 17) CNY 20.58
Target Price CNY 20.20
52 Week range CNY 16.66 - 35.13
Market Cap (m) CNYm 62,828
USDm 9,421

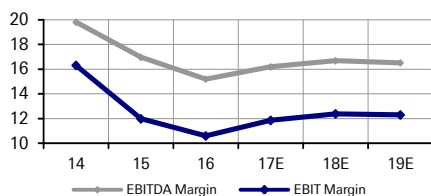
Company Profile

Established in 2001 and listed on Shenzhen stock exchange in 2008, Goertek is a leading consumer electronics manufacturer engages in the production of acoustic component (MEMS microphone, speaker box, and receiver) and accessory product (Bluetooth headset, earpod) for applications of tablet, smartphone, game console, hands free headphone, etc. By leveraging its design and manufacturing technology strength, Goertek establishes long-term partnership with world-class customers (Apple, Samsung, Sony, Google).

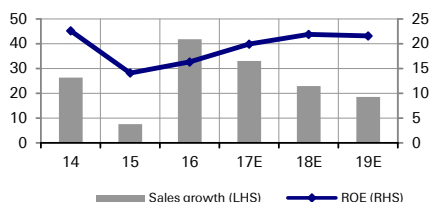
Price Performance



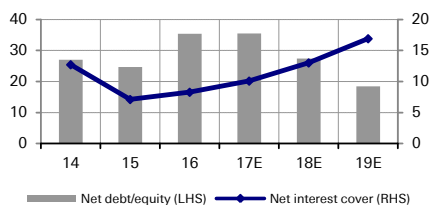
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.54	0.41	0.54	0.78	1.03	1.23
Reported EPS (CNY)	0.54	0.41	0.54	0.78	1.03	1.23
DPS (CNY)	0.05	0.05	0.08	0.09	0.11	0.14
BVPS (CNY)	2.7	3.1	3.6	4.2	5.2	6.3
Weighted average shares (m)	3,053	3,053	3,053	3,053	3,053	3,053
Average market cap (CNYm)	83,773	94,696	85,713	62,828	62,828	62,828
Enterprise value (CNYm)	86,264	97,003	89,421	67,289	67,005	66,214

Valuation Metrics

P/E (DB) (x)	50.5	75.7	51.9	26.5	20.0	16.7
P/E (Reported) (x)	50.5	75.7	51.9	26.5	20.0	16.7
P/BV (x)	8.97	11.23	7.47	4.85	3.99	3.29
FCF Yield (%)	nm	0.4	nm	nm	1.2	2.1
Dividend Yield (%)	0.2	0.2	0.3	0.4	0.5	0.7
EV/Sales (x)	6.8	7.1	4.6	2.6	2.1	1.8
EV/EBITDA (x)	34.5	42.0	30.5	16.2	12.7	10.7
EV/EBIT (x)	41.8	59.5	43.7	22.1	17.1	14.4

Income Statement (CNYm)

Sales revenue	12,639	13,604	19,288	25,661	31,552	37,420
Gross profit	3,865	4,025	5,206	6,978	8,609	10,109
EBITDA	2,504	2,308	2,933	4,156	5,265	6,179
Depreciation	376	552	722	943	1,184	1,400
Amortisation	65	126	166	169	172	176
EBIT	2,063	1,631	2,045	3,043	3,909	4,604
Net interest income/(expense)	-162	-229	-247	-302	-301	-272
Associates/affiliates	-2	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	108	90	107	25	45	47
Profit before tax	2,006	1,491	1,905	2,766	3,653	4,378
Income tax expense	321	250	296	415	548	657
Minorities	27	-11	-43	-19	-35	-36
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,657	1,251	1,651	2,370	3,140	3,758
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	1,657	1,251	1,651	2,370	3,140	3,758

Cash Flow (CNYm)

Cash flow from operations	423	2,464	2,016	2,727	3,448	4,298
Net Capex	-1,350	-2,044	-3,340	-3,006	-2,706	-2,976
Free cash flow	-927	419	-1,324	-279	743	1,322
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-153	-153	-229	-261	-345	-413
Net inc/(dec) in borrowings	3,198	16	803	731	-804	-724
Other investing/financing cash flows	-48	-312	55	-212	-114	-118
Net cash flow	2,071	-29	-695	-21	-521	67
Change in working capital	-1,678	535	-523	-755	-1,048	-1,035

Balance Sheet (CNYm)

Cash and other liquid assets	4,193	4,164	3,468	3,448	2,927	2,994
Tangible fixed assets	6,150	7,437	9,530	11,593	13,115	14,691
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	130	139	139	139	139
Other assets	7,415	7,517	9,775	12,038	14,393	16,756
Total assets	17,758	19,248	22,912	27,217	30,573	34,580
Interest bearing debt	6,493	6,509	7,312	8,043	7,239	6,515
Other liabilities	2,743	3,242	4,751	6,216	7,581	8,968
Total liabilities	9,236	9,751	12,064	14,259	14,820	15,483
Shareholders' equity	8,331	9,405	10,845	12,955	15,749	19,093
Minorities	191	92	3	3	3	3
Total shareholders' equity	8,522	9,497	10,848	12,958	15,753	19,097
Net debt	2,300	2,345	3,844	4,596	4,312	3,521

Key Company Metrics

Sales growth (%)	26.3	7.6	41.8	33.0	23.0	18.6
DB EPS growth (%)	26.8	-24.5	32.0	43.5	32.5	19.7
EBITDA Margin (%)	19.8	17.0	15.2	16.2	16.7	16.5
EBIT Margin (%)	16.3	12.0	10.6	11.9	12.4	12.3
Payout ratio (%)	9.2	12.2	13.9	11.0	11.0	11.0
ROE (%)	22.6	14.1	16.3	19.9	21.9	21.6
Capex/sales (%)	10.7	15.0	17.3	11.7	8.6	8.0
Capex/depreciation (x)	3.1	3.0	3.8	2.7	2.0	1.9
Net debt/equity (%)	27.0	24.7	35.4	35.5	27.4	18.4
Net interest cover (x)	12.7	7.1	8.3	10.1	13.0	16.9

Source: Company data, Deutsche Bank estimates



Earnings comparison

Maintaining Hold rating with 12-month target price of
RMB20.2

Figure 1: 2Q17 P&L snapshot

	2Q17	1Q17	QoQ	2Q16	YoY	2Q17 DBe	% of diff	2Q17 Consensus	% of diff
Sales	5,479	4,495	21.9%	3,891	40.8%	5,269	4.0%	5,348	2.5%
Gross profits	1,229	979	25.5%	881	39.6%	1,125	9.2%	1,177	4.5%
Op. profits	622	415	49.7%	406	53.0%	514	21.0%	514	20.9%
Non-op	(110)	(71)	54.8%	(83)	33.2%	(40)	NM	(19)	NM
Pre-tax income	511	344	48.7%	323	58.1%	474	7.9%	495	3.3%
Net profit	420	299	40.3%	277	51.6%	412	1.8%	423	-0.7%
EPS (RMB)	0.14	0.10	40.3%	0.09	51.6%	0.14	1.8%	0.14	-0.7%
Margin analysis									
Gross margin	22.4%	21.8%		22.6%		21.4%		22.0%	
Operating margin	11.3%	9.2%		10.4%		9.8%		9.6%	
Net margin	7.7%	6.7%		7.1%		7.8%		7.9%	

Source: Deutsche Bank estimates, company data

Figure 2: Earnings revision

P/L Revision (TWDm)	2016	2017E		2018E		2019E		% of change		
		Old	New	Old	New	Old	New	2017E	2018E	2019E
Net sales	19,288	24,433	25,661	28,674	31,552	31,224	37,420	5.0	10.0	19.8
Gross profits	4,319	5,497	5,866	6,611	7,253	7,368	8,533	6.7	9.7	15.8
Op. expenses	2,274	2,688	2,823	2,953	3,344	3,122	3,929	5.0	13.2	25.8
Op. profit	2,045	2,809	3,043	3,658	3,909	4,245	4,604	8.3	6.9	8.4
Non-op gain/loss	-140	-177	-277	-164	-256	-128	-225	56.5	55.5	76.3
Pre-tax profits	1,905	2,632	2,766	3,493	3,653	4,118	4,378	5.1	4.6	6.3
Net profit	1,651	2,256	2,370	3,004	3,140	3,536	3,758	5.1	4.5	6.3
EPS (TWD)	0.5	0.7	0.8	1.0	1.0	1.2	1.2	5.1	4.5	6.3
Key ratio (%)										
Sale growth	41.8	26.7	33.0	17.4	23.0	8.9	18.6			
Gross margin	22.4	22.5	22.9	23.1	23.0	23.6	22.8			
Ope. Margin	10.6	11.5	11.9	12.8	12.4	13.6	12.3			
Net margin	8.6	9.2	9.2	10.5	10.0	11.3	10.0			

Source: Deutsche Bank estimates, company data



Figure 3: Quarterly P&L highlights

(RMB mn)	1Q17	2Q17	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Sales	4,495	5,479	6,912	8,775	25,661	6,727	7,262	8,036	9,526	31,552
Gross profit	979	1,229	1,592	2,065	5,866	1,550	1,651	1,831	2,220	7,253
Operating profit	415	622	847	1,159	3,043	764	866	961	1,317	3,909
Non-operating item	-71	-110	-20	-75	-277	-64	-64	-64	-64	-256
Pre-tax income	344	511	827	1,084	2,766	700	802	897	1,254	3,653
Net profit	299	420	728	923	2,370	616	641	790	1,093	3,140
EPS (RMB)	0.10	0.14	0.24	0.30	0.78	0.20	0.21	0.26	0.36	1.03
Margin Analysis (%)										
Gross margin	21.8	22.4	23.0	23.5	22.9	23.0	22.7	22.8	23.3	23.0
Operating margin	9.2	11.3	12.3	13.2	11.9	11.4	11.9	12.0	13.8	12.4
Pre-tax margin	7.6	9.3	12.0	12.4	10.8	10.4	11.0	11.2	13.2	11.6
Tax rate	13.0	17.9	12.0	14.8	14.3	12.0	20.0	12.0	12.8	14.0
YoY growth (%)										
Sales	69.3	40.8	14.1	31.3	33.0	49.7	32.5	16.3	8.6	23.0
Gross profit	58.4	39.6	21.9	36.4	35.8	58.3	34.4	15.0	7.5	23.6
Operating profit	54.8	53.0	21.8	71.8	48.8	84.1	39.2	13.5	13.7	28.4
Pre-tax profit	47.6	58.1	23.8	59.3	45.2	103.7	56.8	8.5	15.7	32.1
Net profit	51.6	51.6	29.5	50.1	43.5	106.1	52.8	8.5	18.3	32.5
QoQ growth (%)										
Sales	-32.7	21.9	26.1	27.0		-23.3	8.0	10.7	18.5	
Gross profit	-35.3	25.5	29.6	29.7		-24.9	6.5	10.9	21.3	
Operating profit	-38.5	49.7	36.3	36.8		-34.1	13.2	11.1	37.0	
Pre-tax profit	-49.5	48.7	61.9	31.0		-35.4	14.5	12.0	39.7	
Net profit	-51.4	40.3	73.4	26.8		-33.2	4.0	23.1	38.4	
Sales breakdown										
Microphone (MEMS/ECM)	10.5%	10.6%	9.4%	8.5%	9.6%	9.3%	8.8%	8.7%	7.9%	8.6%
Receiver/speaker	12.7%	13.8%	13.8%	15.6%	14.2%	14.5%	13.6%	13.3%	12.3%	13.3%
Speaker box	24.0%	22.8%	22.7%	23.1%	23.1%	22.3%	21.5%	21.2%	19.4%	21.0%
Earpod	11.0%	8.8%	10.3%	11.0%	10.4%	9.3%	8.3%	8.6%	7.9%	8.5%
VR headset	29.5%	31.0%	31.4%	30.5%	30.7%	32.2%	36.8%	36.3%	41.0%	37.0%
Other ODM product	12.3%	13.1%	12.4%	11.3%	12.1%	12.5%	11.0%	11.9%	11.6%	11.7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Goertek	002241.SZ	20.58 (CNY) 17 Aug 17	NA

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

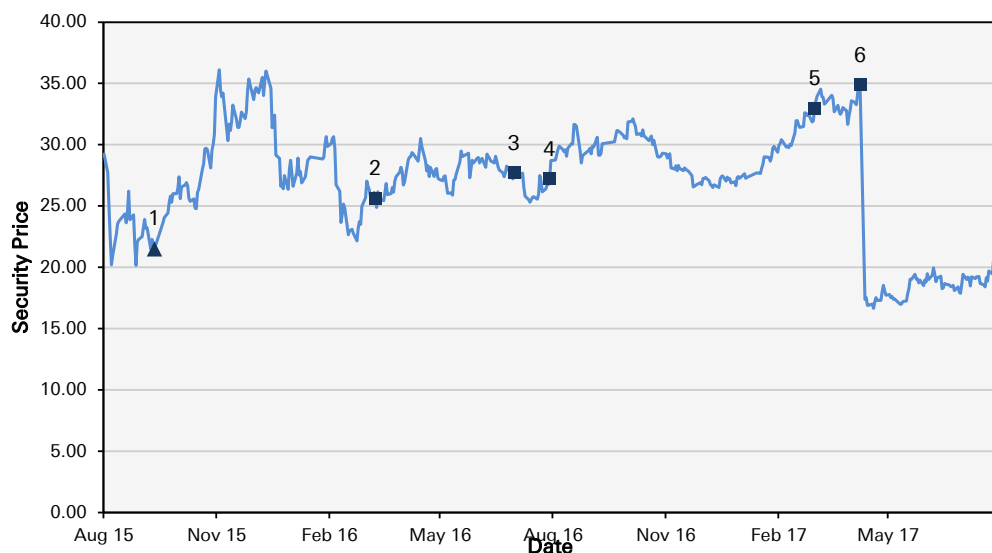
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Historical recommendations and target price: Goertek (002241.SZ)

(as of 8/17/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

**Analyst is no longer at Deutsche Bank

1.	01/10/2015:	Upgrade to Hold, Target Price Change CNY22.50	Birdy Lu	4.	18/08/2016:	Hold, Target Price Change CNY30.00	Birdy Lu
2.	29/03/2016:	Hold, Target Price Change CNY25.00	Birdy Lu	5.	22/03/2017:	Hold, Target Price Change CNY33.00	Birdy Lu
3.	20/07/2016:	Hold, Target Price Change CNY27.00	Birdy Lu	6.	28/04/2017:	Hold, Target Price Change CNY18.00	Birdy Lu



Equity rating key

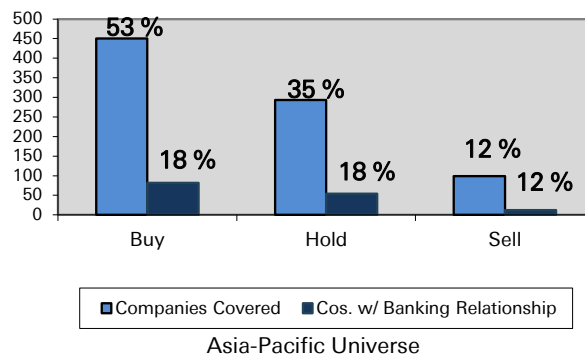
Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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