

Goertek (002241 CH)

Strong 4Q20 with better margins; Maintain BUY

Goertek pre-announced FY20 revenue/net profit growth of 64%/123% YoY, which reached upper end of its prior earnings guidance (+115-125% YoY). We maintain our positive view on Goertek's outlook backed by upcycle of AirPods /Watch/HomePod, better product mix and recovery of AR/VR demand. We raised FY21E/22E EPS by 16-18% to reflect stronger revenue and fine-tuned margins. Our new TP of RMB46.9 is based on lowered 35x FY21E P/E (vs prior 40x), given recent weaker sector sentiment. We believe stock price pullback on recent mgmt. changes provides good buying opportunity given Goertek's product roadmap and high earnings visibility of 36% FY20-22E EPS CAGR. Maintain BUY.

- Strong 4Q20 results on AirPods momentum and improving yield.** Goertek reported upbeat 4Q20 earnings with revenue/net profit of RMB22.9bn/838mn, up 108%/184% YoY. We attribute this to 1) higher share and improving yield for AirPods, 2) stronger AR/VR products (new Oculus), and 3) better demand for new products (AirPods Max, HomePod mini). For FY20, we estimate revenue from precision components/ hearables (AirPods/Homepod)/ smart products (watch, VR) grew 20%/65%/59% YoY.
- 2021 Outlook: AirPods and AR/VR as dual growth engines.** We estimate AirPods shipment will grow 45%/22% YoY to 94mn/115mn in FY20E/21E, and Goertek's share allocation will expand from 23% in FY20 to 37%/41% in FY21/22E, driving AirPods revenue growth of 103%/23% YoY. In addition, we expect Goertek VR/AR segment will regain traction with 40%/30% YoY growth in FY21/20E, backed by new product cycle from Oculus Quest and Sony PSVR in 2H20E.
- Share repurchase program announced.** Goertek announced a new share repurchase program of RMB500mn-1bn with price no more than RMB39.0 per share, equivalent to 12.82mn-25.64mn share and 0.39-0.78% of its total shares outstanding. We believe the share buyback signaled mgmt.'s strong confidence about the company's outlook.
- Maintain BUY with new TP of RMB46.9** We revised up our FY21-22E EPS by 16-18% to reflect stronger revenue and fine-tuned margins. Our FY21/22E EPS are 11%/7% above consensus, and our new TP of RMB46.9 is based on lowered 35x FY21E P/E (vs prior 40x), due to recent weaker sector sentiment. We believe recent correction offers good opportunity to accumulate the stock.

Earnings Summary

(YE31Dec)	FY18	FY19	FY20E	FY21E	FY22E
Revenue (RMB mn)	23,751	35,148	57,613	84,439	102,551
YoY growth (%)	(7.0)	48.0	63.9	46.6	21.5
Net income (RMB mn)	868	1,281	2,855	4,384	5,329
EPS (RMB)	0.27	0.40	0.89	1.34	1.63
YoY growth (%)	(60.3)	48.1	122.5	50.4	21.6
Consensus EPS (RMB)	NA	NA	0.87	1.20	1.5
P/E (x)	123.0	83.0	37.3	24.8	20.4
P/B (x)	7.1	6.7	6.0	5.0	4.3
Yield (%)	0.3	0.3	0.7	1.0	1.2
ROE (%)	6	7.9	15.6	20.3	20.8
Net gearing (%)	37	19	33	35	26

Source: Company data, Bloomberg, CMBIS estimate

BUY (Maintain)

Target Price **RMB46.9**
 (Previous TP **RMB46.0**)
 Up/Downside **+41.0%**
 Current Price **RMB33.2**

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	110,278
Avg. 3mths t/o (RMB mn)	3,775.34
52W High/Low (RMB)	50.23/ 14.82
Total Issued Shares (mn)	3,322

Source: Bloomberg

Shareholding Structure

Weifang Geer Group	17.99%
Jiang Bin	11.51%
Jiang Long	6.02%

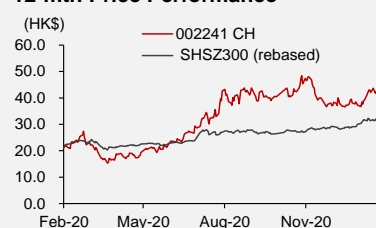
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.1%	-13.5%
3-mth	-27.3%	-35.9%
6-mth	-6.8%	-20.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ruihua

Earnings Revision

Figure 1: Earnings revisions

RMB mn	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	84,439	102,551	76,661	93,097	10%	10%
Gross Profit	14,307	17,382	12,978	15,645	10%	11%
Operating Profit	5,082	6,173	4,361	5,216	17%	18%
Net profit	4,384	5,329	3,731	4,466	18%	19%
EPS (RMB)	1.34	1.63	1.15	1.38	16%	18%
Gross Margin	16.9%	16.9%	16.9%	16.8%	0 ppt	0.1 ppt
Operating Margin	6.0%	6.0%	5.7%	5.6%	0.3 ppt	0.4 ppt
Net Margin	5.2%	5.2%	4.9%	4.8%	0.3 ppt	0.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS		Consensus		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	84,439	102,551	72,133	89,248	17%	15%
Gross Profit	14,307	17,382	12,074	14,871	18%	17%
Operating Profit	5,082	6,173	4,787	6,016	6%	3%
Net profit	4,384	5,329	4,012	4,951	9%	8%
EPS (RMB)	1.34	1.63	1.20	1.52	11%	7%
Gross Margin	16.9%	16.9%	16.7%	16.7%	0.2 ppt	0.3 ppt
Operating Margin	6.0%	6.0%	6.6%	6.7%	-0.6 ppt	-0.7 ppt
Net Margin	5.2%	5.2%	5.6%	5.5%	-0.4 ppt	-0.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 3: Revenue breakdown

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Precision component	9,931	10,620	12,788	14,409	16,068
...YoY	-4%	7%	20%	13%	12%
Speaker/Receiver	6,500	6,175	7,410	8,151	8,559
MIC (ECM/MEMS)	2,200	2,860	3,289	3,618	4,161
MEMS sensor	300	330	380	417	459
Antenna	300	390	585	761	989
Optical component module	631	865	1,125	1,462	1,901
Hearable products	6,813	14,823	24,452	43,780	54,017
...YoY	25%	118%	65%	79%	23%
AirPods	2,240	9,347	16,365	33,163	40,950
Android TWS	1,000	1,400	3,000	4,680	6,000
Smart Speakers	500	850	1,700	2,380	3,332
Other smart products	6,627	8,514	13,535	18,728	24,194
...YoY	-29%	28%	59%	38%	29%
Smart Watch	2,000	3,000	5,100	7,650	10,328
VR/AR	3,000	3,300	6,000	8,400	10,920
Robotics/UAV/smart light	1,627	2,214	2,435	2,678	2,946
Non-main business	380	1,191	6,837	7,521	8,273
...YoY	-13%	214%	474%	10%	10%
Total	23,751	35,148	57,613	84,439	102,551
...YoY	-7%	48%	64%	47%	21%

Source: Company data, CMBIS estimates

Figure 4: P&L forecast

RMB mn	FY18	FY19	1Q20	2Q20	3Q20	4Q20E	FY20E	FY21E	FY22E
Revenue	23,751	35,148	6,474	9,099	19,157	22,882	57,613	84,439	102,551
...YoY	-7%	48%	13%	16%	81%	108%	64%	47%	21%
Cost of sales	(19,282)	(29,726)	(5,294)	(7,470)	(15,828)	(19,111)	(47,703)	(70,132)	(85,169)
Gross profit	4,469	5,422	1,180	1,629	3,329	3,771	9,909	14,307	17,382
GPM (%)	18.8%	15.4%	18.2%	17.9%	17.4%	16.5%	17.2%	16.9%	16.9%
...YoY	-20%	21%	23%	41%	87%	147%	83%	44%	21%
SG&A	(1,609)	304	(352)	(311)	(601)	(1,213)	(2,477)	(3,631)	(4,410)
...% of rev	6.8%	0.9%	5.4%	3.4%	3.1%	5.3%	4.3%	4.3%	4.3%
R&D	(1,334)	(1,807)	(338)	(635)	(1,072)	(1,124)	(3,169)	(4,560)	(5,538)
...% of rev	5.6%	5.1%	5.2%	7.0%	5.6%	4.9%	5.5%	5.4%	5.4%
Operating profit	1,006	1,496	360	618	1,411	929	3,318	5,082	6,173
OPM (%)	4.2%	4.3%	5.6%	6.8%	7.4%	4.1%	5.8%	6.0%	6.0%
...YoY	-60%	49%	46%	53%	158%	212%	122%	53%	21%
Net profit	868	1,281	294	487	1,236	838	2,855	4,384	5,329
NPM (%)	3.7%	3.6%	4.5%	5.3%	6.4%	3.7%	5.0%	5.2%	5.2%
...YoY	-59%	48%	45%	52%	168%	184%	123%	54%	22%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of RMB46.9 (40% upside)

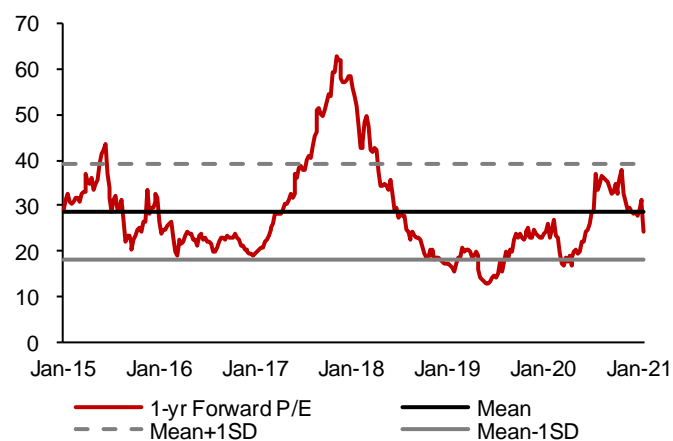
We raised FY21-22E EPS by 16-18% to reflect stronger sales and revised margins. Our new TP of RMB46.9 is based on lowered 35x FY21E P/E (vs 40x prior). Following recent correction on concerns over mgmt. changes, we think the stock is attractive at 24.8x FY21E P/E, given 36% FY20-22E EPS CAGR, strong earnings visibility and improving ROE.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
A-listed components												
Goertek	002241 CH	Buy	17,155	33.20	46.9	41%	37.3	24.8	6.0	5.0	15.6	20.3
Luxshare	002475 CH	Buy	57,796	53.10	74.2	40%	39.9	30.0	10.1	7.7	25.2	25.8
O-film	002456 CH	NR	4,309	10.28	NA	NA	23.9	17.0	2.6	2.3	10.2	13.7
Sunway	300136 CH	NR	4,835	32.12	NA	NA	23.8	16.3	5.1	3.9	22.1	25.0
BOE	000725 CH	NR	33,036	6.18	NA	NA	47.2	22.0	2.2	2.0	4.0	8.2
Hans Laser	002008 CH	NR	7,115	42.86	NA	NA	40.2	27.5	4.6	4.1	12.2	15.4
Lens Tech	300433 CH	NR	25,841	33.40	NA	NA	33.3	25.5	5.2	4.5	15.6	16.7
Everwin	300115 CH	NR	4,057	26.06	NA	NA	41.1	26.2	4.7	4.1	12.2	16.9
Holitech	002217 CH	NR	1,740	3.59	NA	NA	-	-	-	-	-	-
Average							36.6	24.2	5.1	4.2	14.4	17.5
H-listed components												
FIT Hon Teng	6088 HK	Buy	2,943	3.31	4.1	24%	17.5	12.1	1.3	1.2	7.3	9.8
AAC Tech	2018 HK	Hold	6,570	42.15	43.2	2%	34.7	23.2	2.3	2.1	6.5	9.3
Sunny Optical	2382 HK	Buy	28,888	204.20	146.1	-28%	46.7	34.5	12.1	9.4	26.0	27.1
Tongda	698 HK	Buy	443	0.53	0.6	6%	10.8	6.6	0.5	0.5	4.7	7.7
BYDE	285 HK	Buy	15,606	53.70	49.5	-8%	19.7	17.6	5.0	4.0	25.1	22.4
Q tech	1478 HK	Buy	2,389	15.80	16.6	5%	20.8	17.2	4.6	3.7	22.0	21.8
TK Group	2283 HK	Buy	311	2.89	2.3	-19%	5.2	4.5	1.9	1.9	35.7	41.7
Truly	732 HK	NR	581	1.37	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	37,260	26.45	NA	NA	46.7	81.2	1.7	1.8	4.8	2.3
YOFC	6869 HK	NR	1,951	10.10	NA	NA	9.8	8.6	0.7	0.7	7.1	7.0
Cowell	1415 HK	NR	628	5.84	NA	NA	10.6	8.7	2.5	2.3	21.1	29.5
Average							22.3	21.4	3.3	2.7	15.2	17.1

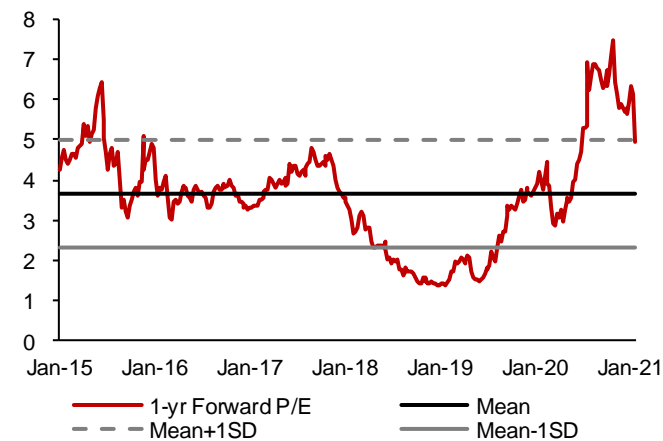
Source: Bloomberg, CMBIS estimates

Figure 6: 12M forward P/E band



Source: Company data, CMBIS

Figure 7: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	23,751	35,148	57,613	84,439	102,551
Cost of sales	19,282	29,726	47,703	70,132	85,169
Gross profit	4,469	5,422	9,909	14,307	17,382
Selling exp	569	534	1,037	1,520	1,846
Admin exp (excl. R&D)	1,040	838	1,440	2,111	2,564
R&D exp	1,334	1,807	3,169	4,560	5,538
Finance costs	318	364	421	533	646
Other operating exp.	201	383	525	500	616
Operating profit	1,006	1,496	3,318	5,082	6,173
Other non-oper exp.	(13)	(25)	(25)	(25)	(25)
Pre-tax profit	993	1,472	3,293	5,058	6,148
Income tax expense	149	192	439	675	820
Minority interests	(23)	(1)	(1)	(1)	(1)
Net profit to shareholders	868	1,281	2,855	4,384	5,329

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net profit	844	1,279	2,853	4,383	5,328
Depreciation/amortization	1,635	1,992	1,319	1,512	1,682
Change in working capital	(866)	1,542	(2,552)	(2,502)	(1,835)
Others	663	638	421	533	646
Net cash from operating	2,276	5,451	2,041	3,925	5,821
Capex	4,240	3,177	3,000	3,000	3,000
Other	(8,503)	(6,215)	(6,000)	(6,000)	(6,000)
Net cash from investing	(4,263)	(3,038)	(3,000)	(3,000)	(3,000)
Share issuance	16	1	0	0	0
Dividend paid	522	595	707	1,086	1,320
Other	92	(1,933)	165	(705)	(1,285)
Net cash from financing	630	(1,337)	872	381	35
Net change in cash	(1,356)	1,077	(87)	1,306	2,855
Cash at beginning of the year	3,358	2,008	3,095	3,008	4,314
Exchange difference	6	10	0	0	0
Cash at the end of the year	2,008	3,095	3,008	4,314	7,169

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Current assets	13,820	17,704	26,751	35,514	42,984
Cash & equivalents	2,392	3,613	3,526	4,832	7,687
Account receivables	7,211	8,147	13,680	17,680	20,388
Inventories	3,549	5,296	8,898	12,354	14,261
Prepayment	161	218	218	218	218
Other current assets	508	429	429	429	429
Non-current assets	15,922	16,957	18,638	20,126	21,444
PPE	11,117	11,502	13,184	14,672	15,990
Deferred income tax	205	198	198	198	198
Other non-current assets	4,600	5,256	5,256	5,256	5,256
Total assets	29,742	34,660	45,389	55,640	64,428
Current liabilities	13,453	17,558	26,140	33,094	37,874
Deferred income	104	105	105	105	105
Account payables	5,615	9,675	16,257	21,211	23,991
Tax payable	91	140	140	140	140
Other current liabilities	7,642	7,639	9,639	11,639	13,639
Non-current liabilities	1,100	973	973	973	973
Deferred income	284	397	397	397	397
Deferred tax liability	209	233	233	233	233
Other non-current liabilities	606	344	344	344	344
Total liabilities	14,553	18,531	27,113	34,067	38,848
Share capital	3,245	3,245	3,245	3,245	3,245
Reserves	11,956	12,862	15,010	18,308	22,318
Minority interest	(12)	22	21	19	18
Shareholders' equity	15,190	16,129	18,276	21,573	25,581
Total equity and liabilities	29,742	34,660	45,389	55,640	64,428

Key ratios

YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Sales mix (%)					
Precision Components	42	30	22	17	16
Hearable products	29	42	42	52	53
Other smart products	28	24	23	22	24
Non-main business	2	3	12	9	8
Growth (%)					
Revenue	(7.0)	48.0	63.9	46.6	21.5
Gross profit	(20.5)	21.3	82.8	44.4	21.5
Operating profit	(59.7)	48.7	121.7	53.2	21.5
Net profit	(59.4)	47.6	122.9	53.6	21.6
Profit & loss ratio (%)					
Gross margin	18.8	15.4	17.2	16.9	16.9
Operating margin	4.2	4.3	5.8	6.0	6.0
Net profit margin	3.7	3.6	5.0	5.2	5.2
Balance sheet ratio					
Net debt/total equity (x)	0.4	0.2	0.3	0.4	0.3
Current ratio (x)	1.0	1.0	1.0	1.1	1.1
Receivable turnover days	104	80	80	80	80
Inventory turnover days	62	54	54	54	54
Payable turnover days	100	94	94	94	94
Profitability (%)					
ROE	5.7	7.9	15.6	20.3	20.8
ROA	2.9	3.7	6.3	7.9	8.3
Per share data (RMB)					
EPS	0.27	0.40	0.89	1.34	1.63
DPS	0.10	0.10	0.22	0.33	0.40

Source: Company data, CMBIS estimates

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