招银国际 CMB INTERNATIONAL
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Goertek (002241 CH)

Strong VR momentum into 2H22E; Maintain BUY

Goertek posted strong 1Q22 revenue/recurring NP growth of 43%/46% YoY, in-line with its preliminary results, mainly driven by 125% YoY growth in smart product segment, such as VR (Quest 2) and gaming console (PS 5), in our view. Also, Goertek released upbeat 1H22 profit alert of 20-40% YoY growth, which implies 2Q22 NP of RMB1.18-1.52bn, up 54-99% YoY. Looking into 2H22E, we believe Goertek growth momentum will continue with multiple product launches from new-gen AirPods, Quest 2 Pro and PS VR2. Overall, we expect Goertek's earnings to grow 33%/21% in FY22/23E, backed by 62%/26% growth in smart product segment (VR, gaming console, smart watch). We believe recent pullback provides good buying opportunity (17.7x FY22E P/E), given its solid product roadmap and high earnings visibility in AR/VR and gaming console biz. Maintain BUY and raised TP to RMB48.0, based on rollover 28x FY22E P/E (7-yr hist avg).

- **Strong 1Q22 on strong VR and gaming console product cycle**. Goertek reported solid 1Q22 results with revenue/recurring NP of RMB20.1bn/ 878mn, up 43%/46% YoY, in-line with its preview earlier. We attribute it to 1) AirPods recovery with product launch in 2H21, 2) stronger VR products (Oculus Quest 2), and 3) share gain in gaming console client (PS 5). For 1H22E, company pre-announced net profit of RMB2.08-2.42bn, up 20-40% YoY, implying 2Q22 NP growth of 59-99% YoY, with mid-point 33% above consensus estimate. We think the profit alert alleviated market concerns on AirPods weakness, COVID-19 impact and VR momentum in 2022.
- **2022 Outlook: AR/VR and gaming console as dual growth engines.** We estimate AirPods shipment will rebound with 13%/6% YoY to 88mn/93mn in FY22/23E, and Goertek will maintain at 43% share allocation. In addition, we believe Goertek VR/AR and gaming segment will become major growth driver (51% of FY22E sales), which will grow at 62%/26% YoY in FY22/23E, backed by new product cycle from Oculus Quest 2 Pro and Sony PS VR 2 in 2H22E, as well as share gain in Sony PS 5.
- **Reiterate BUY and raised TP to RMB48.0** We revised up our FY22-23E EPS to reflect upbeat 1H22 outlook and stronger momentum in VR/gaming console. Our new TP of RMB48.0 is based on rollover 28x FY22E P/E (vs prior 35x FY21E P/E), based on 7-year hist. avg P/E. We believe recent correction offers good opportunity to accumulate the stock.

Earnings Summary

(YE31Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (RMB mn)	57,743	78,221	103,687	121,268	138,872
YoY growth (%)	64.3	35.5	32.6	17.0	14.5
Net income (RMB mn)	2,848	4,275	5,853	7,086	8,610
EPS (RMB)	0.89	1.29	1.71	2.07	2.52
YoY growth (%)	122.5	44.9	32.8	21.1	21.5
Consensus EPS (RMB)	n/a	1.29	1.66	2.10	2.59
P/E (x)	34.1	23.6	17.7	14.7	12.1
P/B (x)	5.0	3.7	3.2	2.7	2.3
Yield (%)	0.5	0.6	0.9	1.0	1.2
ROE (%)	14.4	15.3	18.1	18.5	18.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB48.0**
(Previous TP	RMB46.9)
Up/Downside	**+58.0%**
Current Price	**RMB30.39**

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	103,822
Avg. 3mths t/o (RMB mn)	1,958.77
52W High/Low (RMB)	58.43/ 27.38
Total Issued Shares (mn)	3,416

Source: Bloomberg

Shareholding Structure

Weifang Geer Group	14.97%
Jiang Bin	8.41%
HKEX	7.50%

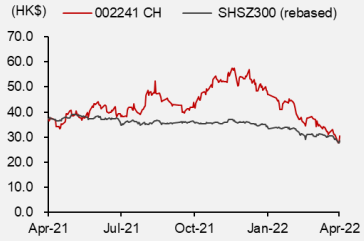
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-25.77%	-18.11%
3-mth	-43.00%	-29.01%
6-mth	-36.79%	-17.09%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ruihua

1Q22 results review

Figure 1: 1Q22 review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus 1Q22E	Diff (%)
Revenue	14,028	16,260	22,501	25,432	20,112	-21%	43%	17,916	12%
Gross Profit	2,042	2,323	3,431	3,257	2,759	-15%	35%	2,544	8%
Operating Profit	1,145	885	1,812	841	1,020	21%	-11%	1,047	-2%
Net profit	966	765	1,601	942	901	-4%	-7%	889	1%
EPS	0.28	0.22	0.47	0.28	0.26	-4%	-7%	0.26	2%
Gross Margin	14.6%	14.3%	15.2%	12.8%	13.7%	0.9 ppt	-0.8 ppt	14.2%	-0.5 ppt
Operating Margin	8.2%	5.4%	8.1%	3.3%	5.1%	1.8 ppt	-3.1 ppt	5.8%	-0.8 ppt
Net Margin	6.9%	4.7%	7.1%	3.7%	4.5%	0.8 ppt	-2.4 ppt	5.0%	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Earnings Revision

Figure 2: CMBI estimates vs consensus

	CMBI			Consensus			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	103,687	121,268	138,872	103,722	127,053	151,597	0%	-5%	-8%
Gross Profit	14,407	17,237	20,206	15,157	18,680	22,309	-5%	-8%	-9%
Operating Profit	6,516	7,946	9,629	6,515	8,249	9,949	0%	-4%	-3%
Net profit	5,853	7,086	8,610	5,690	7,199	8,849	3%	-2%	-3%
EPS (RMB)	1.71	2.07	2.52	1.66	2.10	2.59	3%	-1%	-3%
Gross Margin	14%	14%	15%	14.6%	14.7%	14.7%	-0.7 ppt	-0.5 ppt	-0.2 ppt
Operating Margin	6%	7%	7%	6.3%	6.5%	6.6%	0 ppt	0.1 ppt	0.4 ppt
Net Margin	6%	6%	6%	5.5%	5.7%	5.8%	0.2 ppt	0.2 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Revenue breakdown

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Precision Components	**12,205**	**13,840**	**14,476**	**16,648**	**19,145**
… YoY	***15%***	***13%***	***5%***	***15%***	***15%***
Speaker/receiver	7,410	8,151	8,396	8,647	8,907
MIC (ECM/MEMS)	3,289	3,618	3,726	3,838	3,953
MEMS sensor	380	417	459	505	556
Antenna	585	761	913	1,095	1,314
Optical component module	542	893	983	1,081	1,189
Hearable Products	**26,674**	**30,297**	**34,473**	**36,022**	**36,629**
… YoY	***80%***	***14%***	***14%***	***20%***	***20%***
Airpods	15,045	19,365	20,114	20,323	19,760
Android TWS	3,000	3,900	6,500	7,000	7,200
Smart Speaker	1,700	2,380	2,975	3,570	4,284
Others	6,929	4,652	4,885	5,129	5,385
Smart Products	**17,652**	**32,809**	**53,095**	**66,710**	**81,021**
… YoY	***107%***	***86%***	***62%***	***26%***	***21%***
Smart Watch	5,100	7,650	11,475	16,065	20,885
Gaming Console	-	2,016	4,663	5,266	5,131
AR/VR Headset	7,900	20,115	33,626	41,714	56,106
Robotics/UAV/smart light	4,652	3,028	3,331	3,664	4,031
Non-main business	**1,211**	**1,275**	**1,642**	**1,888**	**2,077**
… YoY	***2%***	***5%***	***29%***	***15%***	***10%***
Total	**57,743**	**78,221**	**103,687**	**121,268**	**138,872**
…YoY	*64%*	*35%*	*33%*	*17%*	*15%*

Source: Company data, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY20	FY21	1Q22	2Q22E	3Q22E	4Q22E	FY22E	FY23E	FY24E
Revenue	**57,743**	**78,221**	**16,260**	**22,501**	**25,432**	**78,221**	**103,687**	**121,268**	**138,872**
…YoY	*64%*	*35%*	*79%*	*17%*	*11%*	*35%*	*33%*	*17%*	*15%*
Cost of sales	(48,484)	(67,168)	(13,936)	(19,070)	(22,175)	(67,168)	(89,280)	(104,031)	(118,667)
Gross profit	**9,259**	**11,054**	**2,323**	**3,431**	**3,257**	**11,054**	**14,407**	**17,237**	**20,206**
GPM (%)	16.0%	14.1%	14.3%	15.2%	12.8%	14.1%	13.9%	14.2%	14.5%
…YoY	*71%*	*19%*	*43%*	*3%*	*4%*	*19%*	*30%*	*20%*	*17%*
SG&A	(2,106)	(2,397)	(534)	(644)	(601)	(2,397)	(2,720)	(3,153)	(3,611)
…% of rev	3.6%	3.1%	3.3%	2.9%	2.4%	3.1%	2.6%	2.6%	2.6%
R&D	(3,426)	(4,170)	(836)	(953)	(1,677)	(4,170)	(5,391)	(6,306)	(7,082)
…% of rev	*5.9%*	*5.3%*	*5.1%*	*4.2%*	*6.6%*	*5.3%*	*5.2%*	*5.2%*	*5.1%*
Operating profit	**3,261**	**4,683**	**885**	**1,812**	**841**	**4,683**	**6,516**	**7,946**	**9,629**
OPM (%)	*5.6%*	*6.0%*	*5.4%*	*8.1%*	*3.3%*	*6.0%*	*6.3%*	*6.6%*	*6.9%*
…YoY	*118%*	*44%*	*43%*	*28%*	*-4%*	*44%*	*39%*	*22%*	*21%*
Net profit	**2,848**	**4,275**	**765**	**1,601**	**942**	**4,275**	**5,853**	**7,086**	**8,610**
NPM (%)	*4.9%*	*5.5%*	*4.7%*	*7.1%*	*3.7%*	*5.5%*	*5.6%*	*5.8%*	*6.2%*
…YoY	*122%*	*50%*	*57%*	*30%*	*13%*	*50%*	*37%*	*21%*	*22%*

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of RMB48.0 (58% upside)

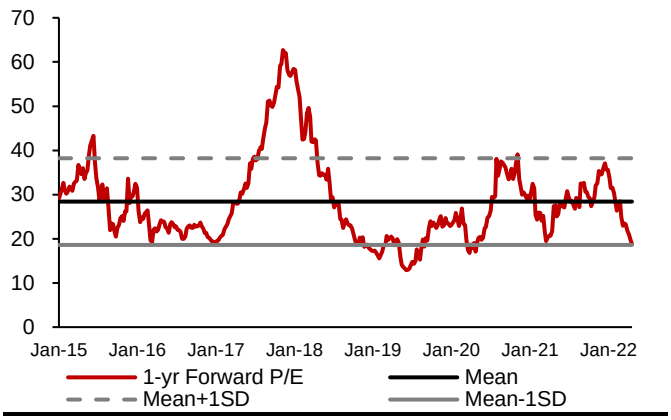
Our new TP of RMB48.0 is based on rollover 28x FY22E P/E (vs 35x FY21E P/E prior). Following recent correction on concerns over demand weakness, we think the stock is attractive at 17.7x FY22E P/E, given 21% FY22-24E EPS CAGR, strong earnings visibility and improving ROE.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x) FY22E	P/E (x) FY23E	P/B (x) FY22E	P/B (x) FY23E	ROE (%) FY22E	ROE (%) FY23E
A-listed components												
Goertek	002241 CH	Buy	15,825	30.39	48.0	58%	17.7	14.7	3.2	2.7	18.1	18.5
Luxshare	002475 CH	Buy	29,954	27.74	*74.2	NA	18.8	14.7	4.4	3.4	24.8	25.0
O-film	002456 CH	NR	2,637	5.31	NA	NA	22.5	21.0	1.7	1.6	1.1	1.1
Sunway	300136 CH	NR	2,099	14.23	NA	NA	12.2	9.9	1.8	1.6	13.2	12.1
BOE	000725 CH	NR	21,988	3.77	NA	NA	6.9	5.9	1.0	0.8	13.8	14.8
Hans Laser	002008 CH	NR	4,426	27.61	NA	NA	12.5	10.3	2.2	1.9	18.0	18.6
Lens Tech	300433 CH	NR	7,202	9.50	NA	NA	7.6	6.2	1.0	0.9	13.1	14.4
Everwin	300115 CH	NR	1,357	7.41	NA	NA	8.1	5.8	1.2	1.0	13.7	16.4
Holitech	002217 CH	NR	1,292	2.72	NA	NA	-	-	-	-	-	-
			Average				**13.3**	**11.1**	**2.1**	**1.7**	**14.5**	**15.1**
H-listed components												
FIT Hon Teng	6088 HK	Buy	882	0.97	1.8	81%	5.5	4.7	0.3	0.3	6.0	6.9
AAC Tech	2018 HK	Hold	2,594	16.84	23.4	39%	14.0	11.8	0.8	0.8	5.6	6.5
Sunny Optical	2382 HK	Hold	15,432	110.40	125.7	14%	21.1	17.7	4.3	3.6	20.4	20.3
Tongda	698 HK	Buy	156	0.13	0.2	83%	2.5	2.1	0.1	0.1	3.8	4.3
BYDE	285 HK	Hold	4,370	15.22	12.5	-18%	17.3	10.3	1.2	1.1	6.9	10.6
Q tech	1478 HK	Buy	788	5.22	8.6	65%	6.5	7.8	1.0	0.9	15.8	11.4
TK Group	2283 HK	Buy	247	2.33	3.4	45%	5.7	4.5	1.1	0.9	18.6	20.7
Truly	732 HK	NR	868	2.07	NA	NA	4.6	3.7	0.6	0.5	12.1	13.7
SMIC	981 HK	NR	23,037	15.30	NA	NA	9.0	10.0	0.8	0.7	9.1	7.8
YOFC	6869 HK	NR	1,818	10.06	NA	NA	7.4	6.5	0.6	0.6	8.7	9.2
Cowell	1415 HK	NR	883	8.30	NA	NA	11.9	8.8	2.1	1.8	20.3	23.2
			Average				**9.6**	**8.0**	**1.2**	**1.0**	**11.6**	**12.2**

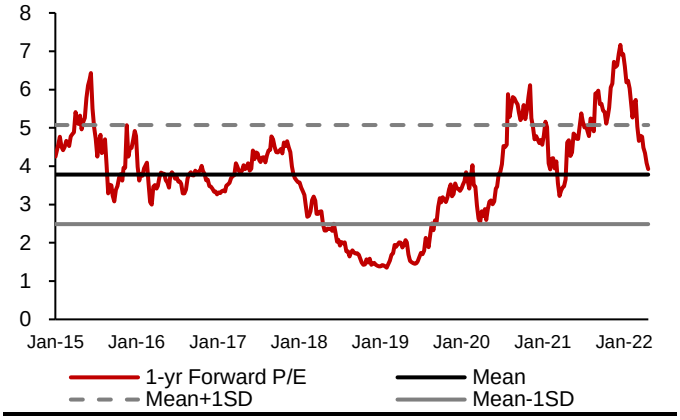
Source: Bloomberg, CMBIGM estimates, * under review

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**57,743**	**78,221**	**103,687**	**121,268**	**138,872**
Cost of sales	48,484	67,168	89,280	104,031	118,667
Gross profit	**9,259**	**11,054**	**14,407**	**17,237**	**20,206**
Selling exp	476	445	462	485	555
Admin exp (excl. R&D)	1,630	1,952	2,258	2,668	3,055
R&D exp	3,426	4,170	5,391	6,306	7,082
Finance costs	491	167	194	194	194
Other operating exp.	(25)	(363)	(413)	(362)	(311)
Operating profit	**3,261**	**4,683**	**6,516**	**7,946**	**9,629**
Other non-oper exp.	(39)	(77)	(86)	(86)	(86)
Pre-tax profit	**3,222**	**4,606**	**6,430**	**7,860**	**9,543**
Income tax expense	370	299	550	747	907
Minority interests	4	32	27	27	27
Net profit to shareholders	**2,848**	**4,275**	**5,853**	**7,086**	**8,610**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	2,852	4,307	5,853	7,086	8,610
Depreciation/amortization	2,188	2,918	2,078	2,470	2,818
Change in working capital	2,268	1,186	4,682	(5,338)	4,215
Others	374	187	194	194	194
Net cash from operating	**7,682**	**8,598**	**12,807**	**4,412**	**15,836**
Capex	5,599	6,962	5,500	5,500	5,500
Other	(10,900)	(13,730)	(11,000)	(11,000)	(11,000)
Net cash from investing	**(5,301)**	**(6,768)**	**(5,500)**	**(5,500)**	**(5,500)**
Share issuance	51	2,179	-	-	-
Dividend paid	572	675	915	1,063	1,291
Other	1,020	(2,466)	(24)	(320)	(777)
Net cash from financing	**1,642**	**387**	**891**	**743**	**515**
Net change in cash	4,024	2,217	8,198	(345)	10,851
Cash at beginning of year	3,095	6,913	9,138	17,336	16,991
Exchange difference	(205)	7	-	-	-
Cash at the end of year	**6,913**	**9,138**	**17,336**	**16,991**	**27,842**

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	**28,129**	**35,162**	**52,922**	**52,148**	**72,960**
Cash & equivalents	7,788	10,049	18,246	17,901	28,752
Account receivables	10,045	11,949	17,790	16,987	22,820
Inventories	9,171	12,082	15,818	16,192	20,321
Prepayment	296	98	98	98	98
Other current assets	830	984	970	970	970
Non-current assets	**20,989**	**25,917**	**28,833**	**31,863**	**34,545**
PPE	14,675	18,123	21,546	24,575	27,258
Deferred income tax	276	495	495	495	495
Other non-current assets	6,039	7,299	6,792	6,792	6,792
Total assets	**49,118**	**61,079**	**81,754**	**84,010**	**107,506**
Current liabilities	**22,736**	**29,803**	**46,047**	**42,280**	**58,457**
Deferred income					
Account payables	17,324	21,272	35,516	29,749	43,926
Tax payable	195	357	357	357	357
Other current liabilities	5,217	8,174	10,174	12,174	14,174
Non-current liabilities	**6,648**	**3,345**	**3,345**	**3,345**	**3,345**
Deferred income	539	540	540	540	540
Deferred tax liability	323	390	390	390	390
Other non-current liabilities	5786	2414	2414	2414	2414
Total liabilities	**29,384**	**33,148**	**49,392**	**45,624**	**61,801**
Share capital	3,275	3,416	3,416	3,416	3,416
Reserves	16,378	23,911	28,343	34,366	41,684
Minority interest	80	604	604	604	604
Shareholders' equity	**19,734**	**27,931**	**32,363**	**38,386**	**45,704**
Total equity and liabilities	**49,118**	**61,079**	**81,755**	**84,010**	**107,506**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Precision Components	21	18	14	14	14
Hearable products	46	39	33	30	26
Other smart products	31	42	51	55	58
Non-main business	2	2	2	2	1
Growth (%)					
Revenue	64.3	35.5	32.6	17.0	14.5
Gross profit	70.8	19.4	30.3	19.6	17.2
Operating profit	117.9	43.6	39.1	21.9	21.2
Net profit	122.4	50.1	36.9	21.1	21.5
Profit & loss ratio (%)					
Gross margin	16.0	14.1	13.9	14.2	14.5
Operating margin	5.6	6.0	6.3	6.6	6.9
Net profit margin	4.9	5.5	5.6	5.8	6.2
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.2	1.2	1.1	1.2	1.2
Receivable turnover days	57	51	51	51	51
Inventory turnover days	54	58	58	58	58
Payable turnover days	102	105	105	105	105
Profitability (%)					
ROE	14.4	15.3	18.1	18.5	18.8
ROA	5.8	7.0	7.2	8.4	8.0
Per share data (RMB)					
EPS	0.89	1.29	1.71	2.07	2.52
DPS	0.15	0.20	0.27	0.31	0.38

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

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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
SELL	: Stock with potential loss of over 10% over next 12 months
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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