Goertek (002241 CH)

Strong 2Q22 in-line; Lower TP on margin weakness

Goertek's 2Q22 revenue/ NP growth of 45%/54% YoY is largely in-line with its preliminary results, and 2Q GPM is slightly lower at 12.3% (-2ppt YoY, -1.4ppt QoQ) due to product mix and new product ramp. Also, Goertek reported soft 3Q22 prelim earnings of 9.5%-40.7% YoY growth, which is below expectations due to weaker VR demand and macro weakness. Looking into 2H22E, we believe Goertek's growth momentum will continue with multiple product launches from new-gen AirPods, Quest 2 Pro and PS VR2. Overall, we expect Goertek to remain the major beneficiary of AR/VR product cycle in 2023E, and deliver 28%/23% YoY earnings growth in FY22/23E, backed by 62%/26% YoY in smart product segment (VR, gaming console, smart watch). Maintain BUY with new TP to RMB44.69, based on same 28x FY22E P/E (7-yr hist avg).

- **Strong 2Q22 on solid VR/gaming console despite margin pressure**. Goertek reported solid 2Q22 results with revenue/recurring NP growth of 45%/54% YoY, in-line with its preview earlier. Given Android demand weakness, 2Q22 precision components/hearables products declined 11%/8% YoY, offsetting strong smart product (Watch, AR/VR, gaming console) of 119% YoY. In addition, 2Q GPM came in at 12.3% (-2ppt YoY, -1.4ppt QoQ) due to weaker product mix and new product ramp up. For 3Q22E, company pre-announced net profit of RMB1.75-2.25bn, up 9.5-40.7% YoY, below expectations due to macro weakness and soft VR demand.
- **2023 Outlook: AR/VR and gaming console as dual growth engines.** We believe Goertek's VR/AR and gaming segment will continue to be major growth drivers (51%/55% of FY22/23E 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. In addition, mgmt. maintained positive view with AR/VR/MR shipment target of 50-60mn unit in 2025, backed by a new wave of product launches from Meta, Pico and Apple in next two years.
- **Maintain BUY with new TP of RMB44.69.** We trimmed our FY22-24E EPS by 3-7% to reflect lower margin and near-term macro weakness. Our new TP of RMB44.69 is based on same 28x FY22E P/E, based on 7-year hist. avg P/E. We believe recent pullback provides good buying opportunities (16.5x FY23E P/E), given its solid product roadmap and growth opportunities in AR/VR and gaming console biz.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	57,743	78,221	103,714	121,299	138,907
YoY growth (%)	64.3	35.5	32.6	17.0	14.5
Net profit (RMB mn)	2,848.0	4,274.7	5,452.9	6,725.2	8,315.2
EPS (Reported) (RMB)	0.89	1.29	1.60	1.97	2.43
YoY growth (%)	122.5	44.9	23.7	23.3	23.6
Consensus EPS (RMB)	na	na	1.66	2.12	2.57
P/E (x)	34.5	31.5	20.3	16.5	13.3
P/B (x)	5.1	5.0	3.5	2.9	2.5
Yield (%)	0.5	0.5	0.7	0.9	1.1
ROE (%)	15.9	17.9	18.2	19.3	20.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB44.69**
(Previous TP	RMB48.0
Up/Downside	**37.9%**
Current Price	**RMB32.42**

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Stock Data

Mkt Cap (RMB mn)	110,746.7
Avg 3 mths t/o (RMB mn)	34.6
52w High/Low (RMB)	57.40/27.58
Total Issued Shares (mn)	3416.0

Source: FactSet

Shareholding Structure

Goertek Group	29.8%
HKEX	9.8%

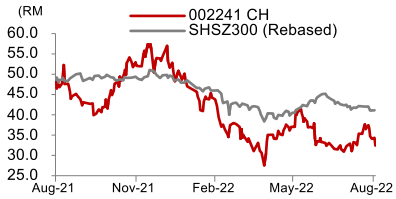
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	1.9%	4.0%
3-mth	-12.4%	-13.7%
6-mth	-25.9%	-17.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

2Q22 results review

Figure 1: 2Q22 review

RMB mn	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY	Consensus 2Q22E	Diff (%)
Revenue	16,260	22,501	25,432	20,112	23,492	17%	44%	22,190	6%
Gross Profit	2,323	3,431	3,257	2,759	2,888	5%	24%	3,146	-8%
Operating Profit	885	1,812	841	1,020	1,324	30%	50%	1,365	-3%
Net profit	765	1,601	942	901	1,178	31%	54%	1,275	-8%
EPS	0.22	0.47	0.28	0.26	0.34	31%	54%	0.36	-4%
Gross Margin	14.3%	15.2%	12.8%	13.7%	12.3%	-1.4 ppt	-2 ppt	14.2%	-1.9 ppt
Operating Margin	5.4%	8.1%	3.3%	5.1%	5.6%	0.6 ppt	0.2 ppt	6.1%	-0.5 ppt
Net Margin	4.7%	7.1%	3.7%	4.5%	5.0%	0.5 ppt	0.3 ppt	5.7%	-0.7 ppt

Source: Bloomberg, CMBIGM estimates

Earnings Revision

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	103,714	121,299	138,907	103,687	121,268	138,872	0%	0%	0%
Gross Profit	13,707	16,995	20,035	14,407	17,237	20,206	-5%	-1%	-1%
Operating Profit	5,978	7,478	9,234	6,516	7,946	9,629	-8%	-6%	-4%
Net profit	5,453	6,725	8,315	5,853	7,086	8,610	-7%	-5%	-3%
EPS (RMB)	1.60	1.97	2.43	1.71	2.07	2.52	-7%	-5%	-3%
Gross Margin	13.2%	14.0%	14.4%	14.0%	14.0%	15.0%	-0.8 ppt	0 ppt	-0.6 ppt
Operating Margin	5.8%	6.2%	6.6%	6.0%	7.0%	7.0%	-0.2 ppt	-0.8 ppt	-0.4 ppt
Net Margin	5.3%	5.5%	6.0%	6.0%	6.0%	6.0%	-0.7 ppt	-0.5 ppt	0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

	CMBI			Consensus			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	103,714	121,299	138,907	102,601	125,490	147,201	1%	-3%	-6%
Gross Profit	13,707	16,995	20,035	14,793	18,189	21,532	-7%	-7%	-7%
Operating Profit	5,978	7,478	9,234	6,252	7,964	9,535	-4%	-6%	-3%
Net profit	5,453	6,725	8,315	5,672	7,229	8,842	-4%	-7%	-6%
EPS (RMB)	1.60	1.97	2.43	1.66	2.12	2.57	-4%	-7%	-5%
Gross Margin	13%	14%	14%	14.4%	14.5%	14.6%	-1.2 ppt	-0.5 ppt	-0.2 ppt
Operating Margin	6%	6%	7%	6.1%	6.3%	6.5%	-0.3 ppt	-0.2 ppt	0.2 ppt
Net Margin	5%	6%	6%	5.5%	5.8%	6.0%	-0.3 ppt	-0.2 ppt	0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: 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**	**1,670**	**1,920**	**2,112**
… YoY	*2%*	*5%*	*31%*	*15%*	*10%*
Total	**57,743**	**78,221**	**103,714**	**121,299**	**138,907**
…YoY	*64%*	*35%*	*33%*	*17%*	*15%*

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	FY20	FY21	1Q22	2Q22	3Q22E	4Q22E	FY22E	FY23E	FY24E
Revenue	**57,743**	**78,221**	**20,112**	**23,492**	**26,636**	**33,475**	**103,714**	**121,299**	**138,907**
…YoY	*64%*	*35%*	*43%*	*44%*	*18%*	*32%*	*33%*	*17%*	*15%*
Cost of sales	(48,484)	(67,168)	(17,353)	(20,604)	(23,040)	(29,018)	(90,007)	(104,305)	(118,872)
Gross profit	**9,259**	**11,054**	**2,759**	**2,888**	**3,596**	**4,457**	**13,707**	**16,995**	**20,035**
GPM (%)	16.0%	14.1%	13.7%	12.3%	13.5%	13.3%	13.2%	14.0%	14.4%
…YoY	*71%*	*19%*	*35%*	*24%*	*5%*	*37%*	*24%*	*24%*	*18%*
SG&A	(2,106)	(2,397)	(615)	(677)	(759)	(795)	(2,845)	(3,154)	(3,612)
…% of rev	3.6%	3.1%	3.1%	2.9%	2.8%	2.4%	2.7%	2.6%	2.6%
R&D	(3,426)	(4,170)	(1,114)	(822)	(932)	(2,008)	(4,877)	(6,308)	(7,084)
…% of rev	*5.9%*	*5.3%*	*5.5%*	*3.5%*	*3.5%*	*6.0%*	*4.7%*	*5.2%*	*5.1%*
Operating profit	**3,261**	**4,683**	**1,020**	**1,324**	**2,072**	**1,555**	**5,978**	**7,478**	**9,234**
OPM (%)	*5.6%*	*6.0%*	*5.1%*	*5.6%*	*7.8%*	*4.6%*	*5.8%*	*6.2%*	*6.6%*
…YoY	*118%*	*44%*	*-11%*	*50%*	*14%*	*85%*	*28%*	*25%*	*23%*
Net profit	**2,848**	**4,275**	**901**	**1,178**	**1,845**	**1,442**	**5,453**	**6,725**	**8,315**
NPM (%)	*4.9%*	*5.5%*	*4.5%*	*5.0%*	*6.9%*	*4.3%*	*5.3%*	*5.5%*	*6.0%*
…YoY	*122%*	*50%*	*-7%*	*54%*	*15%*	*53%*	*28%*	*23%*	*24%*

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of RMB44.69 (38% upside)

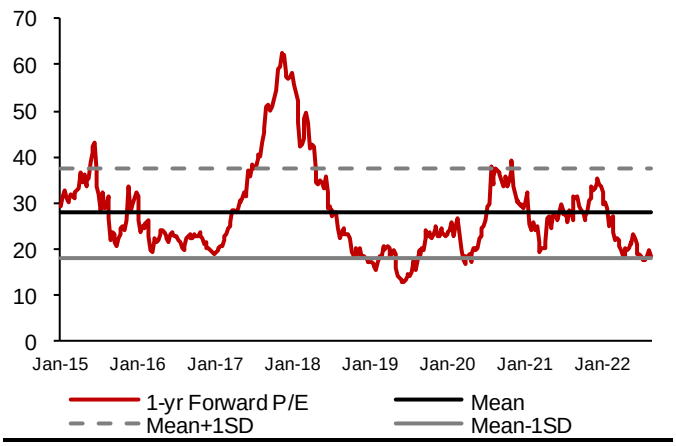
Our new TP of RMB44.69 is based on same 28x FY22E P/E. Following recent correction on concerns over demand weakness, we think the stock is attractive at 16.5x FY23E P/E, given 25% FY22-24E EPS CAGR, strong earnings visibility and improving ROE.

Figure 6: 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	16,027	32.42	44.7	38%	20.3	16.5	3.5	2.9	17.1	17.8
Luxshare	002475 CH	BUY	38,782	37.83	*74.2	NA	26.6	20.1	5.8	4.6	24.8	25.0
O-film	002456 CH	NR	3,050	6.47	NA	NA	-	431.3	2.7	2.7	(11.4)	(1.6)
Sunway	300136 CH	NR	2,399	17.14	NA	NA	20.9	15.5	2.5	2.1	12.2	15.0
BOE	000725 CH	NR	20,715	3.73	NA	NA	8.0	6.6	0.9	0.8	11.6	13.2
Hans Laser	002008 CH	NR	4,711	30.95	NA	NA	16.9	13.4	2.4	2.1	14.6	15.9
Lens Tech	300433 CH	NR	7,880	10.95	NA	NA	24.9	14.9	1.2	1.2	6.2	7.8
Everwin	300115 CH	NR	2,506	14.42	NA	NA	40.4	20.7	2.8	2.6	7.1	10.7
Holitech	002217 CH	NR	1,411	3.13	NA	NA	-	-	-	-	-	-
			Average				**22.6**	**67.4**	**2.7**	**2.4**	**7.2**	**9.8**
H-listed components												
FIT Hon Teng	6088 HK	Buy	1,083	1.17	1.8	52%	6.6	5.8	0.4	0.4	6.0	6.3
AAC Tech	2018 HK	Hold	2,251	14.62	14.0	-4%	17.3	12.0	0.7	0.7	4.0	5.6
Sunny Optical	2382 HK	Hold	14,967	107.10	102.3	-4%	38.4	26.0	4.5	4.0	11.8	15.3
Tongda	698 HK	Buy	151	0.12	0.2	80%	3.1	2.0	0.1	0.1	3.1	4.5
BYDE	285 HK	Hold	5,899	20.55	19.3	-6%	27.5	15.6	1.6	1.5	6.0	9.6
Q tech	1478 HK	Buy	655	4.34	5.6	29%	16.9	8.3	0.9	0.9	5.5	10.3
TK Group	2283 HK	Buy	192	1.81	3.4	87%	4.4	3.5	0.8	0.7	18.6	20.7
Truly	732 HK	NR	718	1.72	NA	NA	4.4	3.5	0.5	0.4	10.6	12.4
SMIC	981 HK	NR	22,963	15.42	NA	NA	8.3	10.1	0.7	0.7	10.1	7.4
YOFC	6869 HK	NR	3,228	18.06	NA	NA	12.0	10.3	1.2	1.1	9.8	10.4
Cowell	1415 HK	NR	1,821	17.10	NA	NA	24.5	15.6	4.3	-	21.4	27.3
			Average				**9.6**	**8.0**	**1.2**	**1.0**	**11.6**	**12.2**

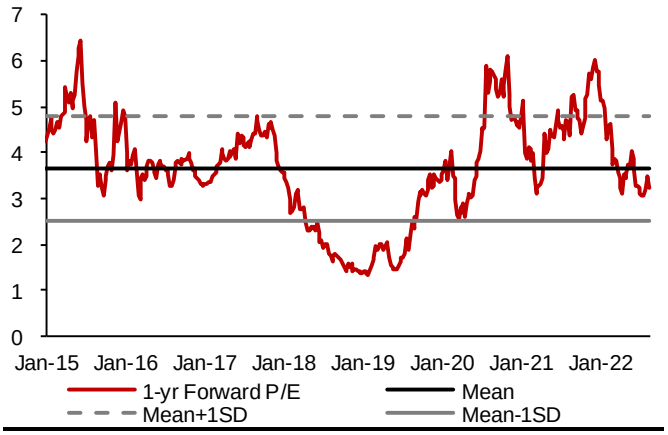
Source: Bloomberg, CMBIGM estimates, * under review

Figure 7: 12M forward P/E band



Source: Company data, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	**35,148**	**57,743**	**78,221**	**103,714**	**121,299**	**138,907**
Cost of goods sold	(29,726)	(48,484)	(67,168)	(90,007)	(104,305)	(118,872)
Gross profit	**5,422**	**9,259**	**11,054**	**13,707**	**16,995**	**20,035**
Selling expense	(534)	(476)	(445)	(423)	(485)	(556)
Admin expense	(838)	(1,630)	(1,952)	(2,422)	(2,669)	(3,056)
R&D expense	(1,807)	(3,426)	(4,170)	(4,877)	(6,308)	(7,084)
Other income	178	225	467	612	612	612
Other expense	(122)	(236)	(271)	(457)	(457)	(457)
Investment gain/loss	(160)	139	469	311	311	311
Other gains/(losses)	(54)	98	(80)	(97)	(97)	(97)
EBIT	**1,496**	**3,261**	**4,683**	**5,978**	**7,478**	**9,234**
Net Interest income/(expense)	**(364)**	**(491)**	**(167)**	**(90)**	**(90)**	**(90)**
Other income/expense	(25)	(39)	(77)	(6)	(6)	(6)
Pre-tax profit	**1,472**	**3,222**	**4,606**	**5,971**	**7,471**	**9,228**
Income tax	(192)	(370)	(299)	(482)	(710)	(877)
After tax profit	**1,279**	**2,852**	**4,307**	**5,489**	**6,761**	**8,351**
Minority interest	(1)	4	32	36	36	36
Net profit	**1,281**	**2,848**	**4,275**	**5,453**	**6,725**	**8,315**

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	**17,704**	**28,129**	**35,162**	**53,037**	**51,277**	**72,480**
Cash & equivalents	3,613	7,788	10,049	18,126	17,173	28,056
Account receivables	8,147	10,045	11,949	17,798	16,988	22,829
Inventories	5,296	9,171	12,082	16,045	16,049	20,527
Prepayment	218	296	98	98	98	98
Financial assets at FVTPL	47	251	119	119	119	119
Other current assets	383	579	850	850	850	850
Non-current assets	**16,957**	**20,989**	**25,917**	**28,833**	**31,863**	**34,545**
PP&E	13,042	16,753	20,250	23,673	26,702	29,385
Deferred income tax	198	276	495	495	495	495
Investment in JVs & assos	270	0	437	437	437	437
Intangibles	2,397	2,730	3,094	3,094	3,094	3,094
Goodwill	18	17	17	17	17	17
Financial assets at FVTPL	336	357	466	466	466	466
Other non-current assets	696	518	652	652	652	652
Total assets	**34,660**	**49,118**	**61,079**	**81,869**	**83,140**	**107,025**
Current liabilities	**17,558**	**22,736**	**29,803**	**46,465**	**42,019**	**58,836**
Short-term borrowings	6,154	3,190	4,285	6,285	8,285	10,285
Account payables	9,675	17,324	21,272	35,934	29,488	44,305
Tax payable	140	195	357	357	357	357
Other current liabilities	795	882	2,822	2,822	2,822	2,822
Accrued expenses	794	1,145	1,067	1,067	1,067	1,067
Non-current liabilities	**973**	**6,648**	**3,345**	**3,345**	**3,345**	**3,345**
Long-term borrowings	344	2,754	2,204	2,204	2,204	2,204
Bond payables	0	3,031	210	210	210	210
Deferred income	233	323	390	390	390	390
Other non-current liabilities	397	539	540	540	540	540
Total liabilities	**18,531**	**29,384**	**33,148**	**49,809**	**45,363**	**62,181**
Share capital	3,245	3,275	3,416	3,416	3,416	3,416
Retained earnings	2,997	3,812	9,478	9,478	9,478	9,478
Other reserves	10,261	13,082	16,725	20,854	26,570	33,638
Total shareholders equity	**16,129**	**19,734**	**27,931**	**32,060**	**37,776**	**44,844**
Minority interest	22	80	604	604	604	604
Total equity and liabilities	**34,660**	**49,118**	**61,079**	**81,869**	**83,140**	**107,025**

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,472**	**3,222**	**4,606**	**5,971**	**7,471**	**9,228**
Depreciation & amortization	1,992	2,188	2,918	2,078	2,470	2,818
Tax paid	(192)	(370)	(299)	(482)	(710)	(877)
Change in working capital	1,542	2,268	1,186	4,865	(5,640)	4,498
Others	638	374	187	90	90	90
Net cash from operations	**5,451**	**7,682**	**8,598**	**12,486**	**3,645**	**15,721**
Investing						
Capital expenditure	(3,177)	(5,599)	(6,962)	(5,500)	(5,500)	(5,500)
Acquisition of subsidiaries/ investments	(306)	(208)	(3,083)	0	0	0
Net proceeds from disposal of short-term investments	95	205	3,102	0	0	0
Others	351	300	174	0	0	0
Net cash from investing	**(3,038)**	**(5,301)**	**(6,768)**	**(5,500)**	**(5,500)**	**(5,500)**
Financing						
Dividend paid	(595)	(572)	(675)	(818)	(1,009)	(1,247)
Net borrowings	(506)	(1,002)	913	2,000	2,000	2,000
Proceeds from share issues	1	51	2,179	0	0	0
Others	(235)	3,166	(2,030)	(90)	(90)	(90)
Net cash from financing	**(1,337)**	**1,642**	**387**	**1,092**	**901**	**663**
Net change in cash						
Cash at the beginning of the year	2,008	3,095	6,913	9,138	17,216	16,262
Exchange difference	10	(205)	7	0	0	0
Cash at the end of the year	**3,095**	**6,913**	**9,138**	**17,216**	**16,262**	**27,146**

GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	48.0%	64.3%	35.5%	32.6%	17.0%	14.5%
Gross profit	21.3%	70.8%	19.4%	24.0%	24.0%	17.9%
EBIT	48.7%	117.9%	43.6%	27.6%	25.1%	23.5%
Net profit	47.6%	122.4%	50.1%	27.6%	23.3%	23.6%

PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	15.4%	16.0%	14.1%	13.2%	14.0%	14.4%
Return on equity (ROE)	8.2%	15.9%	17.9%	18.2%	19.3%	20.1%

GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.0	1.2	1.2	1.1	1.2	1.2
Receivable turnover days	79.7	57.5	51.3	51.3	51.3	51.3
Inventory turnover days	54.3	54.5	57.7	57.7	57.7	57.7
Payable turnover days	93.9	101.6	104.9	104.9	104.9	104.9

VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	31.1	34.5	31.5	20.3	16.5	13.3
P/B	2.5	5.1	5.0	3.5	2.9	2.5
Div yield (%)	0.8	0.5	0.5	0.7	0.9	1.1

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

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