

Goertek (002241 CH)

Focus on VR/AR/gaming business and margin recovery in FY24/25E

Following a challenging 2023, we expect AI-driven upgrade and AR/VR product launches will boost revenue and profitability recovery in FY24E, and impact of share loss of the major TWS project should normalise in 2H24E. In the longer term, we believe Goertek will continue to benefit from AR/VR secular trend with more product launches from major players such as Meta, Sony, Google, Samsung and Huawei. For FY23, revenue/earnings decline of -6%/-38% YoY was mainly dragged by TWS order loss and weak VR/AR demand, but we are encouraged by continued GPM recovery in 4Q23 (10.6% vs. 7.7%/10.1% in 2Q/3Q23). To reflect FY23 results and gradual recovery in FY24/25E, we trimmed FY24/25E EPS by 9%/11% and adjusted TP to RMB17.56, based on same 25x FY24E P/E (7-yr hist avg). Maintain BUY.

■ **2024/25 Outlook: Riding on “AI+XR” trend, PS5/Quest 3 ramp-up and margin recovery.** For 2024, we are positive on shipment momentum of PS5/Quest 3 and stabilised hearable product segment, and we also believe Apple’s Vision Pro and edge-AI trend will accelerate AR/VR/XR product cycle, benefiting Goertek as a global AR/VR/XR OEM leader. In 2024/25, we expect AR/VR/XR product pipeline will come from major players such as Meta, Sony, Google, Samsung and Huawei. Overall, we expect acoustics precision component and smart products segment (gaming, AR/VR) will rebound 4%/9% YoY in FY24E (vs -7%/-7% in FY23), while hearable products (AirPods, Android TWS) will drop 22% YoY in FY24E. GPM will recover to 10.5%/10.5% in FY24/25E (vs 8.9% in FY23E), given improving utilization and hearable product margin recovery.

■ **FY23 earnings bottoming with 4Q GPM recovery.** FY23 sales/net profit decline of 6%/38% YoY were mainly impacted by TWS share loss and VR/AR demand weakness, but we are positive on improving 4Q GPM to 10.6% (vs. 7.7%/10.1% in 2Q/3Q23), backed by better utilization and cost control. In 2H23, precision components/hearable products/smart product segments posted -6%/+10%/-23% YoY, and GPM recovered to 20.4%/8.4%/8.7% in 2H23 (vs. 20.6%/4.1%/5.9% in 1H23).

■ **Maintain BUY.** We think AR/VR technology leadership and product roadmap in TWS/XR/acoustics/gaming segments will enable it to benefit from industry recovery and new MR product cycle in FY24/25E. Maintain BUY with lowered TP of RMB 17.56. Upcoming catalysts include new XR product launches and continued margin recovery

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	104,894	98,574	99,533	105,413	111,962
YoY growth (%)	34.1	(6.0)	1.0	5.9	6.2
Net profit (RMB mn)	1,749.2	1,088.1	2,388.8	2,599.7	2,857.3
EPS (Reported) (RMB)	0.52	0.32	0.70	0.76	0.84
YoY growth (%)	(59.7)	(38.5)	119.5	8.8	9.9
Consensus EPS (RMB)	N/A	N/A	0.76	0.86	1.04
P/E (x)	29.3	47.7	21.7	19.9	18.1
P/B (x)	1.7	1.6	1.5	1.4	1.3
Yield (%)	0.7	0.7	0.7	0.8	0.8
ROE (%)	6.0	3.5	7.3	7.4	7.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB17.56
(Previous TP)	RMB19.22)
Up/Downside	15.2%
Current Price	RMB15.25

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Stock Data

Mkt Cap (RMB mn)	52,155.0
Avg 3 mths t/o (RMB mn)	1,204.5
52w High/Low (RMB)	22.56/14.42
Total Issued Shares (mn)	3420.0

Source: FactSet

Shareholding Structure

Goertek Group	14.8%
Jiang Bin	8.4%

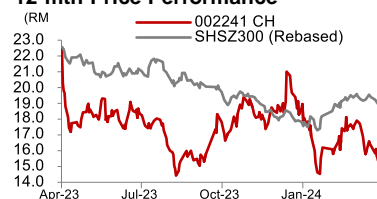
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-13.3%	-11.0%
3-mth	-18.2%	-22.8%
6-mth	-16.8%	-12.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

- Goertek (002241 CH) - 3Q23 weakness in-line; Margin recovery on track into 4Q/FY24E-30 Oct 2023 ([link](#))
- Goertek (002241 CH) - 1H23 weakness in-line; Lower TP on slower demand recovery- 30 Aug 2023 ([link](#))

Earnings Revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	99,533	105,413	111,962	109,333	117,167	N/A	-9%	-10%	N/A
Gross Profit	10,441	11,033	11,688	11,184	12,252	N/A	-7%	-10%	N/A
Operating Profit	2,696	2,930	3,217	2,760	3,180	N/A	-2%	-8%	N/A
Net profit	2,389	2,600	2,857	2,630	2,950	N/A	-9%	-12%	N/A
EPS (RMB)	0.70	0.76	0.84	0.77	0.86	N/A	-9%	-11%	N/A
Gross Margin	10.5%	10.5%	10.4%	10.2%	10.5%	N/A	0.3 ppt	0 ppt	N/A
Operating Margin	2.7%	2.8%	2.9%	2.5%	2.7%	N/A	0.2 ppt	0.1 ppt	N/A
Net Margin	2.4%	2.5%	2.6%	2.4%	2.5%	N/A	0 ppt	-0.1 ppt	N/A

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	99,533	105,413	111,962	103,793	114,858	133,233	-4%	-8%	-16%
Gross Profit	10,441	11,033	11,688	10,535	11,821	13,571	-1%	-7%	-14%
Operating Profit	2,696	2,930	3,217	3,022	3,559	3,765	-11%	-18%	-15%
Net profit	2,389	2,600	2,857	2,616	3,222	3,518	-9%	-19%	-19%
EPS (RMB)	0.70	0.76	0.84	0.76	0.86	1.04	-8%	-11%	-19%
Gross Margin	10.5%	10.5%	10.4%	10.2%	10.3%	10.2%	0.3 ppt	0.2 ppt	0.3 ppt
Operating Margin	2.7%	2.8%	2.9%	2.9%	3.1%	2.8%	-0.2 ppt	-0.3 ppt	0 ppt
Net Margin	2.4%	2.5%	2.6%	2.5%	2.8%	2.6%	-0.1 ppt	-0.3 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: P&L forecast

RMB mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	78,221	104,894	98,574	99,533	105,413	111,962
...YoY	35%	34%	-6%	1%	6%	6%
Cost of sales	(67,168)	(93,233)	(89,753)	(89,093)	(94,380)	(100,274)
Gross profit	11,054	11,661	8,821	10,441	11,033	11,688
GPM (%)	14.1%	11.1%	8.9%	10.5%	10.5%	10.4%
...YoY	19%	5%	-24%	18%	6%	6%
SG&A	(2,397)	(2,843)	(2,731)	(2,727)	(2,878)	(3,023)
...% of rev	3.1%	2.7%	2.8%	2.7%	2.7%	2.7%
R&D	(4,170)	(5,227)	(4,716)	(4,867)	(5,060)	(5,262)
...% of rev	5.3%	5.0%	4.8%	4.9%	4.8%	4.7%
Operating profit	4,683	1,610	909	2,696	2,930	3,217
OPM (%)	6.0%	1.5%	0.9%	2.7%	2.8%	2.9%
...YoY	44%	-66%	-44%	197%	9%	10%
Net profit	4,275	1,749	1,088	2,389	2,600	2,857
NPM (%)	5.5%	1.7%	1.1%	2.4%	2.5%	2.6%
...YoY	50%	-59%	-38%	120%	9%	10%

Source: Company data, CMBIGM estimates

4Q23 & FY23 results review

Figure 4: 4Q23 review

RMB mn	FY22	1Q23	2Q23	3Q23	4Q23	FY23
Revenue	104,894	24,122	21,050	28,775	24,626	98,574
...YoY	34%	20%	-10%	-6%	-20%	-6%
Cost of sales	(93,233)	(22,439)	(19,438)	(25,856)	(22,020)	(89,753)
Gross profit	11,661	1,683	1,612	2,919	2,606	8,821
GPM (%)	11.1%	7.0%	7.7%	10.1%	10.6%	8.9%
...YoY	5%	-39%	-44%	-29%	36%	-24%
SG&A	(2,843)	(698)	(346)	(759)	(928)	(2,731)
...% of rev	2.7%	2.9%	1.6%	2.6%	3.8%	2.8%
R&D	(5,227)	(961)	(1,081)	(1,300)	(1,373)	(4,716)
...% of rev	5.0%	4.0%	5.1%	4.5%	5.6%	4.8%
Operating profit	1,610	(17)	268	486	172	909
OPM (%)	1.5%	-0.1%	1.3%	1.7%	0.7%	0.9%
...YoY	-66%	-102%	-80%	-75%	-107%	-44%
Net profit	1,749	106	316	470	196	1,088
NPM (%)	1.7%	0.4%	1.5%	1.6%	0.8%	1.1%
...YoY	-59%	-88%	-73%	-73%	-109%	-38%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of RMB17.56

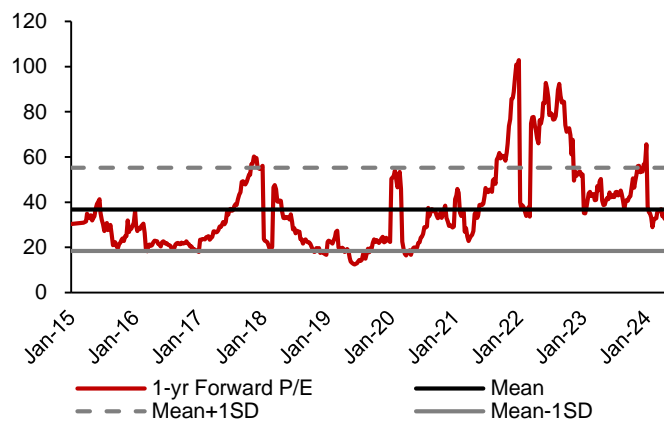
Our new TP of RMB17.56 is based on same 25x FY24E P/E (7-year hist. avg.). Overall, we believe Goertek's industry leadership and product roadmap in TWS/XR/acoustics/gaming segments will allow the company to benefit from industry recovery and market share gain in FY24/25E. Upcoming catalysts include new XR product launches and continued margin recovery.

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 (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
A-listed components												
Goertek	002241 CH	BUY	7,199	15.25	17.56	15%	47.7	21.7	1.6	1.5	3.5	7.3
Luxshare	002475 CH	BUY	27,567	27.80	47.0	69%	17.9	14.2	2.0	1.7	10.9	12.3
O-film	002456 CH	NR	4,132	9.18	NA	NA	-	47.8	-	-	(9.9)	9.9
Sunway	300136 CH	NR	2,421	18.11	NA	NA	22.7	17.3	2.4	2.1	10.5	11.8
BOE	000725 CH	NR	22,185	4.30	NA	NA	47.3	23.4	1.2	1.2	1.9	5.0
Hans Laser	002008 CH	NR	2,657	18.28	NA	NA	20.8	15.2	1.3	1.2	6.2	7.9
Lens Tech	300433 CH	NR	9,390	13.64	NA	NA	22.0	16.9	1.5	1.4	6.8	8.3
Everwin	300115 CH	NR	1,665	10.01	NA	NA	70.0	18.5	2.1	1.9	2.2	10.3
Average							35.5	21.8	1.7	1.6	4.0	9.1
H-listed components												
FIT Hon Teng	6088 HK	BUY	1,890	2.03	2.4	19%	14.4	9.3	0.7	0.7	5.1	7.6
AAC Tech	2018 HK	HOLD	3,842	25.10	22.4	-11%	35.7	19.6	1.2	1.1	3.3	5.8
Sunny Optical	2382 HK	HOLD	5,554	39.65	47.3	19%	35.2	28.7	1.7	1.6	4.8	5.7
Tongda	698 HK	BUY	88	0.07	0.2	139%	3.9	2.4	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	7,410	25.75	46.5	81%	12.9	9.4	1.8	2.7	13.7	29.0
Q tech	1478 HK	BUY	498	3.29	3.9	19%	11.8	8.9	0.7	0.7	6.1	7.6
TK Group	2283 HK	BUY	160	1.50	2.8	86%	6.0	4.4	0.7	0.7	12.3	15.3
SMIC	981 HK	NR	22,317	14.52	NA	NA	16.9	31.4	0.7	0.7	4.5	2.3
YOFC	6869 HK	NR	1,929	8.81	NA	NA	5.2	5.7	0.6	0.5	11.8	10.1
Cowell	1415 HK	NR	1,831	16.80	NA	NA	27.9	17.9	4.3	3.6	14.4	21.9
Average							17.0	13.8	1.3	1.2	7.8	10.9

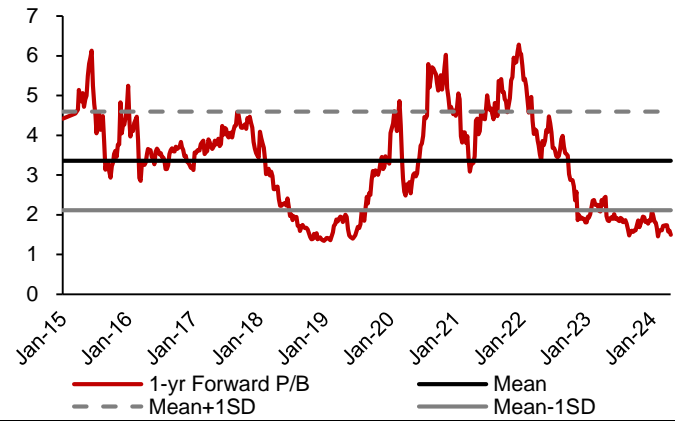
Source: Bloomberg, CMBIGM estimates.

Figure 6: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 7: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	78,221	104,894	98,574	99,533	105,413	111,962
Cost of goods sold	(67,168)	(93,233)	(89,753)	(89,093)	(94,380)	(100,274)
Gross profit	11,054	11,661	8,821	10,441	11,033	11,688
Selling expense	(445)	(548)	(528)	(537)	(580)	(616)
Admin expense	(1,952)	(2,295)	(2,203)	(2,190)	(2,298)	(2,407)
R&D expense	(4,170)	(5,227)	(4,716)	(4,867)	(5,060)	(5,262)
Other income	467	373	373	373	373	373
Other expense	(271)	(1,797)	282	(117)	(117)	(122)
Investment gain/loss	469	(36)	(73)	(73)	(73)	(73)
Other gains/(losses)	(80)	(105)	114	114	114	114
EBIT	4,683	1,610	909	2,696	2,930	3,217
Net Interest income/(expense)	(167)	(149)	(352)	(200)	(200)	(200)
Other income/expense	(77)	144	(118)	(118)	(118)	(118)
Pre-tax profit	4,606	1,509	791	2,578	2,812	3,098
Income tax	(299)	282	228	(258)	(281)	(310)
After tax profit	4,307	1,791	1,019	2,320	2,531	2,789
Minority interest	32	42	(69)	(69)	(69)	(69)
Net profit	4,275	1,749	1,088	2,389	2,600	2,857
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	35,162	45,563	40,041	58,228	45,766	65,400
Cash & equivalents	10,049	12,683	14,737	23,512	17,155	26,999
Account receivables	11,949	14,444	12,573	16,162	14,253	18,033
Inventories	12,082	17,349	10,795	16,618	12,422	18,432
Prepayment	98	51	255	255	255	255
Financial assets at FVTPL	119	339	587	587	587	587
Other current assets	850	698	1,094	1,094	1,094	1,094
Non-current assets	25,917	31,613	33,703	37,206	39,747	41,997
PP&E	20,250	23,884	24,377	27,880	30,421	32,671
Deferred income tax	495	1,370	1,609	1,609	1,609	1,609
Investment in JVs & assos	437	361	760	760	760	760
Intangibles	3,094	3,301	3,896	3,896	3,896	3,896
Goodwill	17	17	605	605	605	605
Financial assets at FVTPL	466	699	591	591	591	591
Other non-current assets	652	1,663	1,865	1,865	1,865	1,865
Total assets	61,079	77,176	73,744	95,434	85,514	107,397
Current liabilities	29,803	42,721	33,442	52,609	40,548	60,071
Short-term borrowings	4,285	7,121	5,214	7,214	9,214	11,214
Account payables	21,272	30,599	22,121	39,288	25,227	42,750
Tax payable	357	285	121	121	121	121
Other current liabilities	2,822	3,676	4,767	4,767	4,767	4,767
Accrued expenses	1,067	1,040	1,220	1,220	1,220	1,220
Non-current liabilities	3,345	4,197	8,775	8,775	8,775	8,775
Long-term borrowings	2,204	2,206	6,631	6,631	6,631	6,631
Bond payables	210	471	518	518	518	518
Deferred income	390	816	758	758	758	758
Other non-current liabilities	540	705	867	867	867	867
Total liabilities	33,148	46,919	42,217	61,384	49,323	68,846
Share capital	3,416	3,420	3,420	3,420	3,420	3,420
Retained earnings	9,478	10,281	8,998	8,998	8,998	8,998
Other reserves	16,725	18,083	18,670	21,192	23,334	25,694
Total shareholders equity	27,931	30,258	31,528	34,050	36,191	38,551
Minority interest	604	766	717	717	717	717
Total equity and liabilities	61,079	77,176	73,744	95,434	85,514	107,397

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,606	1,509	791	2,578	2,812	3,098
Depreciation & amortization	2,918	3,651	4,069	2,557	2,959	3,250
Tax paid	(299)	282	228	(258)	(281)	(310)
Change in working capital	1,186	924	2,230	7,755	(7,956)	7,734
Others	187	1,951	834	200	200	200
Net cash from operations	8,598	8,317	8,152	12,833	(2,266)	13,973
Investing						
Capital expenditure	(6,962)	(8,090)	(6,950)	(5,500)	(5,500)	(5,500)
Acquisition of subsidiaries/ investments	(3,083)	(2,118)	(5,756)	0	0	0
Net proceeds from disposal of short-term investments	3,102	1,061	4,634	0	0	0
Others	174	71	488	0	0	0
Net cash from investing	(6,768)	(9,077)	(7,583)	(5,500)	(5,500)	(5,500)
Financing						
Dividend paid	(675)	(953)	(837)	(358)	(390)	(429)
Net borrowings	913	3,197	2,258	2,000	2,000	2,000
Proceeds from share issues	2,179	395	0	0	0	0
Others	(2,030)	(631)	354	(200)	(200)	(200)
Net cash from financing	387	2,008	1,774	1,442	1,410	1,371
Net change in cash						
Cash at the beginning of the year	6,913	9,138	10,800	13,153	21,927	15,571
Exchange difference	7	414	10	0	0	0
Cash at the end of the year	9,138	10,800	13,153	21,927	15,571	25,415
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	35.5%	34.1%	(6.0%)	1.0%	5.9%	6.2%
Gross profit	19.4%	5.5%	(24.4%)	18.4%	5.7%	5.9%
EBIT	43.6%	(65.6%)	(43.5%)	196.5%	8.7%	9.8%
Net profit	50.1%	(59.1%)	(37.8%)	119.5%	8.8%	9.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	14.1%	11.1%	8.9%	10.5%	10.5%	10.4%
Return on equity (ROE)	17.9%	6.0%	3.5%	7.3%	7.4%	7.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.2	1.1	1.2	1.1	1.1	1.1
Receivable turnover days	51.3	45.9	50.0	50.0	50.0	50.0
Inventory turnover days	57.7	57.6	57.2	57.2	57.2	57.2
Payable turnover days	104.9	101.5	107.2	107.2	107.2	107.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	11.8	29.3	47.7	21.7	19.9	18.1
P/B	1.9	1.7	1.6	1.5	1.4	1.3
Div yield (%)	1.3	0.7	0.7	0.7	0.8	0.8

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

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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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