

## Attractive and defensive industrial play

|               |   |
|---------------|---|
| Rating        | Maintain BUY  |
| Target price  | HK\$2.44  |
| Current price | HK\$1.90 <span style="float: right;">Upside:+28.5%</span> |

### Expects recovery in FY24E, strong balance sheet

We had an operational update meeting with TK's management in Hong Kong this Monday (May 6). TK's FY23 revenue and net profit was down 14.6%/10.0% Yoy respectively to HK\$1,945mn/HK\$204mn, due to weak downstream demand. However, blended GM managed to grow 2.7 ppts Yoy to 26.4% (the highest since FY20), thanks to mold fabrication GM soared 10 ppts Yoy to 37.0% (similar to FY17 and FY18 level) and set off the 1.4 ppts Yoy drop in plastic products GM. The huge increment in mold fabrication GM was mainly lead by **i) lower raw material cost, ii) improved operating efficiency through automation and iii) RMB depreciation during the period. We expect mold fabrication GM would still be >30% driven by operating efficiency, while plastics components GM would be ~mid-20s in FY24E driven by downstream demand recovery and new clients' order ramp up.** TK's current mold fabrication and plastics components segment utilization rose to >90%/>50% (vs. ~83%/<50% in FY23). With higher utilization rate, we expect this would benefit TK's result to recover, accompanied by gradual GM improvement.

TK's financial position remains strong, with net operating cash inflow up 20% Yoy to HK\$445mn in FY23, and net cash position at ~HK\$1.1bn (~72% of TK's market cap), which enabled TK to raise its dividend payout ratio to 80% level in FY23. With CAPEX remains low in FY24E, we expect payout ratio would be able to stay >50%.

### FY24E main growth drivers: Consumer electronics recovery + electronic atomizers' order ramp up + new clients' contribution

TK's order book came in at HK\$830mn (+2.0% Yoy) in FY23, which was mainly contributed by automotive, medical & healthcare, which accounted for 46% of total order book. Management shared that order book further increase to ~HK\$1bn in Apr, which we believe has set up a good fundamental for TK's recovery in FY24E & FY25E. Revenue from electronic atomizers and automobiles each grew 63%/23% Yoy to ~HK\$200mn/HK\$370mn in FY23 and took up 10.5%/18.6% of total revenue.

Order ramp up from electronic atomizers, continue to support TK's revenue growth, while smartphones & wearables and automobiles would continue to play a part. TK is still optimistic towards its electronic atomizers, as it is not only being driven by e-cigarettes but also can be used in medical devices to atomize drugs into micron-sized aerosols.

TK continues to diversify its client portfolio, and having successfully tapped into a leading global AR company (we believe to be Meta), a leading brand of bone conduction earphone and a renowned wearable camera company (we believe to be Insta360 with ~50% global market share in consumptive panoramic camera market in 2022) in China.

### FY24E CAPEX stay low, ample cash for potential M&A and share buyback

TK's FY23 CAPEX came in at ~HK\$70mn and expects FY24E would be similar, in which ~40-50% would invest in Mexico (invest in a plastic component manufacturing plan based on current clients' needs), while remaining would be maintenance CAPEX. With ample cash on hand, TK is still seeking for M&A opportunities that would bring synergy to the group. Given its leading position in the industry, we still believe TK would enjoy a stronger bargaining power when suitable target emerges. Management also considers to kick off share buybacks when suitable.

## Company Update

8 May 2024

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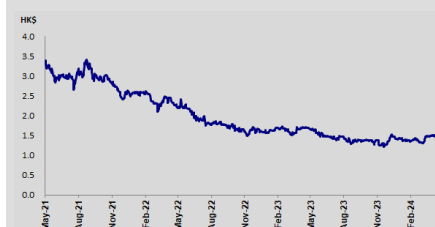
### Trading Data

|                         |   |
|-------------------------|---|
| 52-Week Range (HK\$)    | 1.95/1.17   |
| 3 Mth Avg Daily Vol (m) | 0.80  |
| No of Shares (m)        | 833.3   |
| Market Cap (HK\$m)      | 1,583.2   |
| Major Shareholders (%)  | Li Pui Leung & Asso. (53.0%)<br>Fidelity (9.99%)<br>Value Partner (7.41%) |
| Auditors                | PWC   |
| Result Due              | 1H24E: Aug 2024   |

### Company description

TK Group Holdings Limited ("TK") is a one-stop total plastics solutions provider in PRC, who engaged in the design and fabrication of plastic injection molds and manufacturing of plastic components employing the plastic injection molds. Its customers are believed to include world renowned brands such as Apple, Google Jabra, Philips, Polycom and major German automobile brands. TK Group ranked the second in terms of revenue from fabricating plastic injection molds in the PRC in 2012.

### Price Chart



Sources: Bloomberg, CIBL

## Undemanding valuation on healthy financial position and solid fundamentals, Maintain BUY

We estimate TK's revenue and net profit to grow 12.5%/18.5% CAGR in FY23-26E, it's FY24E 6.1x PE (~1 s.d. below its average PE since listed in end-2013, and ~50% discount to Hong Kong and international peers) looks undemanding to us. We arrive TK's new TP at HK\$2.44 which translates to FY24E 7.8x PE (35% discount to peers) and near its average PE since listing.

With CAPEX expected to stay relatively low in FY24E (vs. FY16-FY22), we expect TK's >50% payout ratio can be maintained in FY24E, this translates into 10.8%/13.6% dividend yield in FY23/24E. With ~HK\$1.1bn net cash on hand (~72% of total market cap) in FY23, and expect stable cash inflow ahead would provide a solid foundation for TK's long-term development. In view of TK's strong financial position, we still regard TK as a good defensive play in industrial universe, we reiterate TK's rating at BUY. **As TK's net profit normally skewed to 2H (40/60 split on average in FY17-19), based on our current FY24E net profit forecast, we expect TK would be able to issue positive profit alert in late 2Q24/ early 3Q24. With multiple catalysts ahead and healthy financial position, we expect TK would receive increasing investors' interest before 1H24 result (due in late-Aug)**

Exhibit 1: TK 1H18-2H23 profit and loss summary

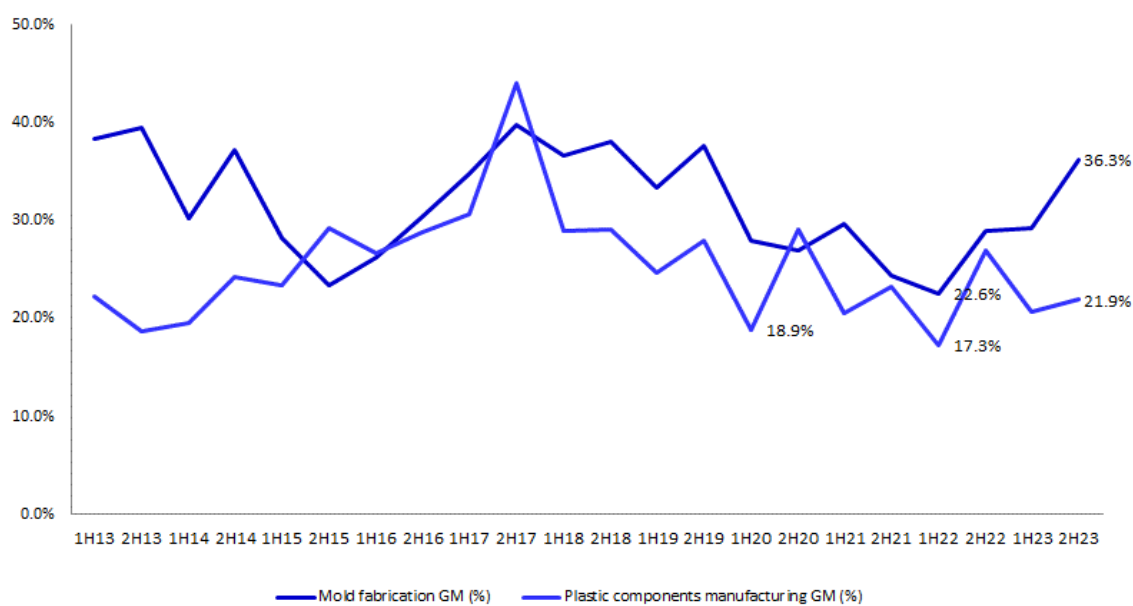
| Year to Dec (HK\$ mn)              | 1H18          | 2H18          | 1H19          | 2H19          | 1H20          | 2H20          | 1H21          | 2H21          | 1H22          | 2H22          | 1H23          | 2H23          | YoY (%)     | Remarks   |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|---|
| Revenue                            | 1,026         | 1,273         | 1,005         | 1,306         | 729           | 1,304         | 1,021         | 1,384         | 969           | 1,310         | 856           | 1,090         | -16.8%      | Plastic injection (-23% YoY) led the revenue drop in 2H23                           |
| Gross profit (reported)            | 323           | 401           | 276           | 391           | 162           | 370           | 242           | 326           | 181           | 332           | 200           | 313           | -5.7%       |   |
| <b>GM(%)</b>                       | <b>31.5%</b>  | <b>31.5%</b>  | <b>27.5%</b>  | <b>29.9%</b>  | <b>22.3%</b>  | <b>28.4%</b>  | <b>23.7%</b>  | <b>23.6%</b>  | <b>18.7%</b>  | <b>25.3%</b>  | <b>23.3%</b>  | <b>28.7%</b>  |             | Blended GM rebounded to 2H20 level mainly driven by mold fabrication GM             |
| Other income                       | 12.0          | 12.7          | 22.7          | 27.4          | 19.7          | 39            | 27.2          | 25            | 26.0          | 19            | 13.3          | 32            | 66.2%       |   |
| (%)                                | 1.2%          | 1.0%          | 2.3%          | 2.1%          | 2.7%          | 3.0%          | 2.7%          | 1.8%          | 2.7%          | 1.5%          | 1.6%          | 2.9%          |             |   |
| - Interest income                  | 5.2           | 4.8           | 10.8          | 9.4           | 6.8           | 8             | 12.9          | 12            | 14.3          | 8             | 11.7          | 11            | 30.6%       |   |
| (%)                                | 0.5%          | 0.4%          | 1.1%          | 0.7%          | 0.9%          | 0.6%          | 1.3%          | 0.8%          | 1.5%          | 0.6%          | 1.4%          | 1.0%          |             |   |
| Other gains/(losses) -net          | (15)          | 13            | (9)           | 3             | 7             | (38)          | 11            | (0)           | 10            | (1)           | (2)           | 11            | -2158.4%    |   |
| (%)                                | -1.5%         | 1.0%          | -0.9%         | 0.2%          | 1.0%          | -2.9%         | 1.1%          | 0.0%          | 1.0%          | 0.0%          | -0.2%         | 1.0%          |             |   |
| Selling expenses                   | 39            | 49            | 36            | 45            | 32            | 39            | 39            | 40            | 33            | 24            | 28            | 29            | 20.0%       |   |
| (%)                                | 3.8%          | 3.8%          | 3.6%          | 3.4%          | 4.4%          | 3.0%          | 3.8%          | 2.9%          | 3.4%          | 1.9%          | 3.3%          | 2.7%          |             |   |
| Admin expenses                     | 121           | 137           | 118           | 152           | 110           | 144           | 124           | 123           | 129           | 146           | 123           | 152           | 3.9%        |   |
| (%)                                | 11.8%         | 10.7%         | 11.7%         | 11.6%         | 15.1%         | 11.1%         | 12.1%         | 8.9%          | 13.3%         | 11.2%         | 14.4%         | 13.9%         |             |   |
| EBITDA                             | 202           | 302           | 201           | 180           | 118           | 263           | 194           | 255           | 129           | 238           | 128           | 240           | 0.7%        |   |
| <b>EBITDA (%)</b>                  | <b>19.7%</b>  | <b>23.8%</b>  | <b>20.0%</b>  | <b>13.8%</b>  | <b>16.1%</b>  | <b>20.1%</b>  | <b>19.0%</b>  | <b>18.4%</b>  | <b>13.3%</b>  | <b>18.2%</b>  | <b>14.9%</b>  | <b>22.0%</b>  |             |   |
| Depreciation & Amortization        | 42            | 61            | 64            | 71            | 71            | 74            | 76            | 68            | 75            | 58            | 68            | 65            | 11.9%       |   |
| <b>D&amp;A (%)</b>                 | <b>4.1%</b>   | <b>4.8%</b>   | <b>6.3%</b>   | <b>5.4%</b>   | <b>9.7%</b>   | <b>5.7%</b>   | <b>7.5%</b>   | <b>4.9%</b>   | <b>7.7%</b>   | <b>4.5%</b>   | <b>7.9%</b>   | <b>6.0%</b>   |             |   |
| EBIT                               | 160           | 241           | 137           | 224           | 47            | 188           | 118           | 187           | 55            | 180           | 60            | 175           | -2.9%       |   |
| <b>EBIT (%)</b>                    | <b>15.6%</b>  | <b>18.9%</b>  | <b>13.6%</b>  | <b>17.2%</b>  | <b>6.4%</b>   | <b>14.4%</b>  | <b>11.6%</b>  | <b>13.5%</b>  | <b>5.6%</b>   | <b>13.7%</b>  | <b>7.0%</b>   | <b>16.0%</b>  |             | Higher GM led to EBIT margin improvement  |
| Net interest income (exp.)         | 4             | 3             | (0)           | (1)           | 1             | 4             | 9             | 9             | 11            | (0)           | 4             | 6             | -1676.9%    |   |
| <b>Net interest income (exp.)%</b> | <b>0.4%</b>   | <b>0.2%</b>   | <b>0.0%</b>   | <b>-0.1%</b>  | <b>0.1%</b>   | <b>0.3%</b>   | <b>0.9%</b>   | <b>0.6%</b>   | <b>1.1%</b>   | <b>0.0%</b>   | <b>0.4%</b>   | <b>0.6%</b>   |             |   |
| Associates                         | 0             | 0             | 0             | 0             | (1)           | 1             | 2             | (1)           | 0             | (8)           | (1)           | (7)           |             |   |
| Exceptionals/others                | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             |             |   |
| %                                  | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          |             |   |
| Profit before tax                  | 164           | 244           | 137           | 223           | 47            | 194           | 129           | 194           | 66            | 171           | 63            | 174           | 1.6%        |   |
| Tax expenses                       | (23)          | (34)          | (23)          | (36)          | (6)           | (25)          | (14)          | (28)          | (7)           | (25)          | (8)           | (24)          | -4.2%       |   |
| <b>Tax rate (%)</b>                | <b>-14.3%</b> | <b>-13.8%</b> | <b>-16.7%</b> | <b>-16.1%</b> | <b>-12.0%</b> | <b>-13.0%</b> | <b>-11.0%</b> | <b>-14.4%</b> | <b>-11.2%</b> | <b>-14.9%</b> | <b>-13.4%</b> | <b>-14.0%</b> |             |   |
| Minority interest                  | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             |             |   |
| <b>Net profit</b>                  | <b>140</b>    | <b>210</b>    | <b>114</b>    | <b>187</b>    | <b>41</b>     | <b>168</b>    | <b>115</b>    | <b>166</b>    | <b>58</b>     | <b>146</b>    | <b>55</b>     | <b>149</b>    | <b>2.6%</b> |   |
| Outstanding shares (Mn)            | 833           | 833           | 833           | 833           | 831           | 833           | 830           | 833           | 830           | 830           | 828           | 827           |             |   |
| Basic EPS                          | 0.169         | 0.252         | 0.137         | 0.224         | 0.050         | 0.202         | 0.139         | 0.200         | 0.070         | 0.176         | 0.066         | 0.181         |             |   |
| <b>Net margin (%)</b>              | <b>13.7%</b>  | <b>16.5%</b>  | <b>11.4%</b>  | <b>14.3%</b>  | <b>5.7%</b>   | <b>12.9%</b>  | <b>11.3%</b>  | <b>12.0%</b>  | <b>6.0%</b>   | <b>11.1%</b>  | <b>6.4%</b>   | <b>13.7%</b>  |             |   |
| <b>Payout Ratio (%)</b>            | <b>35.6%</b>  | <b>55.5%</b>  | <b>36.5%</b>  | <b>40.1%</b>  | <b>40.3%</b>  | <b>39.6%</b>  | <b>39.1%</b>  | <b>43.1%</b>  | <b>39.9%</b>  | <b>49.2%</b>  | <b>42.7%</b>  | <b>97.5%</b>  |             | Payout ratio raised to 80% level in FY23 thanks to low CAPEX and ample cash on hand |
| Dividends                          | 50            | 117           | 42            | 75            | 17            | 67            | 45            | 72            | 23            | 72            | 23            | 146           |             |   |
| DPS(HK\$ cents)                    | 0.06          | 0.14          | 0.05          | 0.09          | 0.02          | 0.08          | 0.05          | 0.09          | 0.03          | 0.09          | 0.03          | 0.18          |             |   |

Source: Company data, CIRC

**Exhibit 2: Key assumptions**

| Year to Dec (HK\$ mn)            | FY19A        | FY20A         | FY21A        | FY22A        | FY23A         | FY24E        | FY25E        | FY26E        |
|----------------------------------|--------------|---------------|--------------|--------------|---------------|--------------|--------------|--------------|
| <b>Segment Revenue</b>           |              |               |              |              |               |              |              |              |
| Mold fabrication                 | 591          | 700           | 706          | 606          | 620           | 657          | 683          | 718          |
| Plastic components manufacturing | 1,720        | 1,333         | 1,698        | 1,673        | 1,326         | 1,658        | 1,873        | 2,060        |
| <b>Group</b>                     | <b>2,311</b> | <b>2,033</b>  | <b>2,404</b> | <b>2,279</b> | <b>1,946</b>  | <b>2,314</b> | <b>2,556</b> | <b>2,778</b> |
| <b>Segment Revenue Growth</b>    |              |               |              |              |               |              |              |              |
| Mold fabrication                 | -14.7%       | 18.5%         | 0.8%         | -14.1%       | 2.2%          | 6.0%         | 4.1%         | 5.0%         |
| Plastic components manufacturing | 7.1%         | -22.5%        | 27.4%        | -1.5%        | -20.7%        | 25.0%        | 13.0%        | 10.0%        |
| <b>Group</b>                     | <b>0.5%</b>  | <b>-12.0%</b> | <b>18.2%</b> | <b>-5.2%</b> | <b>-14.6%</b> | <b>18.9%</b> | <b>10.5%</b> | <b>8.7%</b>  |
| <b>Segment Gross Margin</b>      |              |               |              |              |               |              |              |              |
| Mold fabrication                 | 35.2%        | 27.4%         | 27.1%        | 26.4%        | 37.0%         | 33.5%        | 33.7%        | 33.9%        |
| Plastic components manufacturing | 26.7%        | 25.6%         | 22.2%        | 22.8%        | 21.4%         | 23.7%        | 24.2%        | 24.6%        |

Source: Company data, CIRL estimates

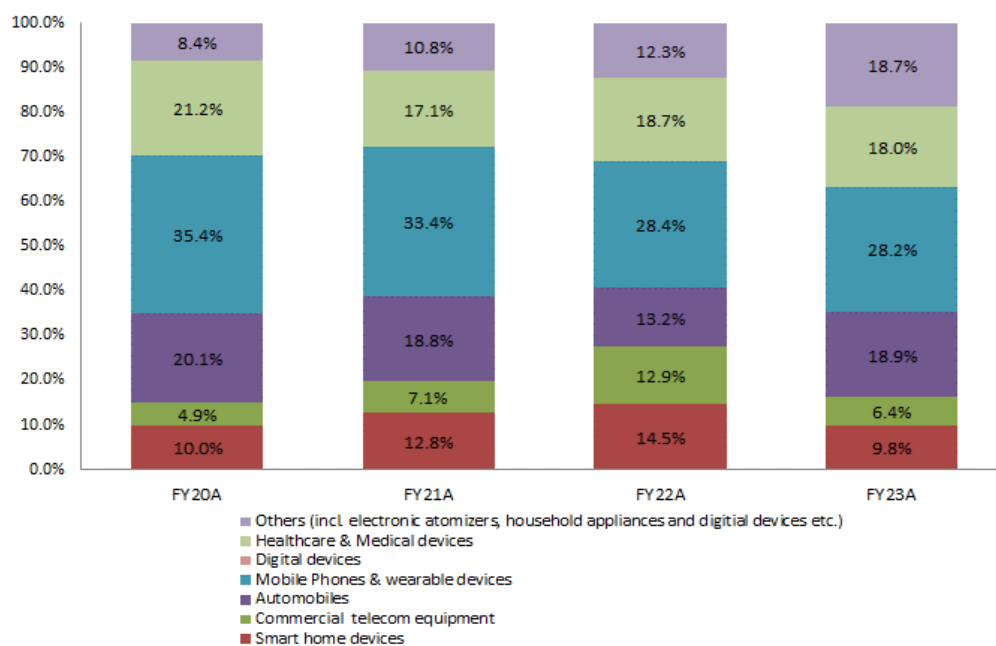
**Exhibit 3: Both segment's GM rebounded in 2H23**


Sources: Company data, CIRL

**Exhibit 4: Automobile and electronic atomizers' revenue growth outpaced consumer electronics in FY23**

| Revenue Breakdown (by industry)  |               |                |                |                |                |
|--|---------------|----------------|----------------|----------------|----------------|
| Year to Dec (HK\$ Mn)  |               | FY20A          | FY21A          | FY22A          | FY23A          |
| Smart home devices   |               | 203.1          | 306.9          | 330.6          | 190.0          |
|  | Growth (Yoy%) | -43.4%         | 51.1%          | 7.7%           | -42.5%         |
| Commercial telecom equipment   |               | 99.9           | 170.3          | 293.1          | 123.8          |
|  | Growth (Yoy%) | -69.5%         | 70.5%          | 72.1%          | -57.8%         |
| Automobiles  |               | 409.1          | 452.2          | 300.5          | 368.7          |
|  | Growth (Yoy%) | 6.2%           | 10.5%          | -33.5%         | 22.7%          |
| Mobile Phones & wearable devices   |               | 719.5          | 804            | 648.2          | 549.5          |
|  | Growth (Yoy%) | 3.7%           | 11.7%          | -19.4%         | -15.2%         |
| Healthcare & Medical devices   |               | 431.3          | 411.5          | 426.5          | 349.7          |
|  | Growth (Yoy%) | 41.0%          | -4.6%          | 3.6%           | -18.0%         |
| Others (incl. electronic atomizers, household appliances and digital devices etc.) |               | 170.5          | 259.5          | 280.4          | 364.0          |
|  | Growth (Yoy%) | 40.4%          | 52.2%          | 8.1%           | 29.8%          |
| <b>Total revenue</b>   |               | <b>2,033.4</b> | <b>2,404.4</b> | <b>2,279.3</b> | <b>1,945.7</b> |
|  | Growth (Yoy%) | -12.0%         | 18.2%          | -5.2%          | -14.6%         |

Sources: Company data, CIRL

**Exhibit 5: Automobiles, healthcare & medical devices contributed ~37% of FY23 revenue**


Sources: Company data, CIRL

**Exhibit 6: Financial forecast**

| Income statement            |              |              |              |              |              |              |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Year to Dec (HKD mn)        | FY21A        | FY22A        | FY23A        | FY24E        | FY25E        | FY26E        |
| <b>Revenue</b>              | <b>2,404</b> | <b>2,279</b> | <b>1,946</b> | <b>2,314</b> | <b>2,556</b> | <b>2,778</b> |
| Gross profit (reported)     | 568          | 542          | 513          | 613          | 684          | 750          |
| <b>EBITDA</b>               | <b>525</b>   | <b>473</b>   | <b>442</b>   | <b>447</b>   | <b>506</b>   | <b>556</b>   |
| Depreciation                | (219)        | (227)        | (215)        | (151)        | (157)        | (165)        |
| <b>EBIT</b>                 | <b>306</b>   | <b>246</b>   | <b>227</b>   | <b>296</b>   | <b>349</b>   | <b>392</b>   |
| Net interest income (exp.)  | 18           | 13           | 10           | 5            | 3            | 3            |
| Associates                  | 0            | 0            | 0            | 0            | 0            | 0            |
| Exceptionals/others         | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Profit before tax</b>    | <b>324</b>   | <b>259</b>   | <b>237</b>   | <b>301</b>   | <b>351</b>   | <b>395</b>   |
| Tax expenses                | (42)         | (32)         | (33)         | (42)         | (49)         | (55)         |
| Minority interest           | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Net profit</b>           | <b>282</b>   | <b>227</b>   | <b>204</b>   | <b>259</b>   | <b>303</b>   | <b>340</b>   |
| Dividends                   | (117)        | (95)         | (169)        | (214)        | (250)        | (281)        |
| Balance sheet               |              |              |              |              |              |              |
| Year to Dec (HKD mn)        | FY21A        | FY22A        | FY23A        | FY24E        | FY25E        | FY26E        |
| Cash & equiv                | 1,203        | 1,272        | 1,158        | 1,116        | 1,180        | 1,251        |
| Trade receivables           | 417          | 343          | 353          | 380          | 424          | 455          |
| Other receivables           | 11           | 0            | 0            | 0            | 0            | 0            |
| Inventories                 | 496          | 392          | 360          | 459          | 506          | 547          |
| Other current assets        | 0            | 0            | 0            | 0            | 0            | 0            |
| Fixed assets                | 630          | 598          | 504          | 430          | 372          | 324          |
| Intangible assets           | 32           | 19           | 15           | 11           | 6            | 2            |
| Investment, associates etc  | 63           | 73           | 61           | 65           | 63           | 64           |
| <b>Total assets</b>         | <b>2,851</b> | <b>2,698</b> | <b>2,452</b> | <b>2,461</b> | <b>2,550</b> | <b>2,643</b> |
| Account payables            | 399          | 349          | 335          | 370          | 407          | 441          |
| Other payables              | 0            | 0            | 0            | 0            | 0            | 0            |
| Short-term debt             | 194          | 286          | 26           | 0            | 0            | 0            |
| Other current liabs         | 370          | 281          | 317          | 317          | 317          | 317          |
| Long-term debts             | 145          | 61           | 0            | 0            | 0            | 0            |
| Deferred tax and others     | 36           | 31           | 23           | 23           | 23           | 23           |
| Other long-term liabs       | 85           | 84           | 65           | 65           | 65           | 65           |
| <b>Total liabilities</b>    | <b>1,229</b> | <b>1,092</b> | <b>766</b>   | <b>775</b>   | <b>813</b>   | <b>846</b>   |
| Share capital               | 83           | 83           | 83           | 83           | 83           | 83           |
| Reserves                    | 1,539        | 1,522        | 1,602        | 1,602        | 1,654        | 1,713        |
| <b>Shareholders' equity</b> | <b>1,622</b> | <b>1,606</b> | <b>1,685</b> | <b>1,685</b> | <b>1,737</b> | <b>1,796</b> |
| Minorities                  | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total equity</b>         | <b>1,622</b> | <b>1,606</b> | <b>1,685</b> | <b>1,685</b> | <b>1,737</b> | <b>1,796</b> |
| Net cash (debt)             | 864          | 925          | 1,132        | 1,116        | 1,180        | 1,251        |

| Cash flow                      |            |            |            |             |            |            |
|--------------------------------|------------|------------|------------|-------------|------------|------------|
| Year to Dec (HKD mn)           | FY21A      | FY22A      | FY23A      | FY24E       | FY25E      | FY26E      |
| Pre-tax profit                 | 324        | 259        | 237        | 301         | 351        | 395        |
| Taxes paid                     | (42)       | (32)       | (33)       | (42)        | (49)       | (55)       |
| Depreciation                   | 219        | 227        | 215        | 151         | 157        | 165        |
| Associates                     | 0          | 0          | 0          | 0           | 0          | 0          |
| CFO bef. WC change             | 501        | 454        | 420        | 410         | 460        | 505        |
| Change in working cap          | (202)      | 127        | 9          | (91)        | (53)       | (39)       |
| <b>Cashflow from operation</b> | <b>299</b> | <b>581</b> | <b>428</b> | <b>319</b>  | <b>407</b> | <b>465</b> |
| CAPEX                          | (117)      | (142)      | (76)       | (85)        | (107)      | (125)      |
| <b>Free cash flow</b>          | <b>181</b> | <b>439</b> | <b>353</b> | <b>234</b>  | <b>300</b> | <b>341</b> |
| Dividends                      | (117)      | (95)       | (169)      | (214)       | (250)      | (281)      |
| Balance sheet adj.             | 12         | (284)      | 24         | (36)        | 14         | 12         |
| Shares issued                  | 0          | 0          | 0          | 0           | 0          | 0          |
| Others                         | 0          | 0          | 0          | 0           | 0          | 0          |
| <b>Net cash flow</b>           | <b>77</b>  | <b>61</b>  | <b>208</b> | <b>(17)</b> | <b>64</b>  | <b>71</b>  |
| Net cash (debt) start          | 787        | 864        | 925        | 1,132       | 1,116      | 1,180      |
| Net cash (debt) at year-end    | 864        | 925        | 1,132      | 1,116       | 1,180      | 1,251      |

| Ratios                  |        |        |        |        |         |         |
|-------------------------|--------|--------|--------|--------|---------|---------|
| Year to Dec             | FY21A  | FY22A  | FY23A  | FY24E  | FY25E   | FY26E   |
| <b>Growth rate (%)</b>  |        |        |        |        |         |         |
| Revenue                 | 18.2   | (5.2)  | (14.6) | 18.9   | 10.5    | 8.7     |
| EBITDA                  | 16.3   | (9.9)  | (6.5)  | 1.1    | 13.2    | 10.0    |
| EBIT                    | 29.7   | (19.6) | (7.7)  | 30.5   | 17.9    | 12.4    |
| Net profit              | 34.3   | (19.3) | (10.1) | 26.7   | 16.9    | 12.3    |
| Fully diluted EPS       | 34.3%  | -19.2% | -9.9%  | 26.7%  | 16.9%   | 12.3%   |
| <b>Margins (%)</b>      |        |        |        |        |         |         |
| Gross margin (reported) | 23.6   | 23.8   | 26.4   | 26.5   | 26.7    | 27.0    |
| EBITDA                  | 21.8   | 20.7   | 22.7   | 19.3   | 19.8    | 20.0    |
| EBIT                    | 12.7   | 10.8   | 11.7   | 12.8   | 13.6    | 14.1    |
| Net margin              | 11.7   | 10.0   | 10.5   | 11.2   | 11.8    | 12.2    |
| <b>Other ratios</b>     |        |        |        |        |         |         |
| ROE (%)                 | 17.4   | 14.2   | 12.1   | 15.4   | 17.4    | 18.9    |
| ROA (%)                 | 9.9    | 8.4    | 8.3    | 10.5   | 11.9    | 12.9    |
| Net gearing (%)         | (53.3) | (57.6) | (67.2) | (66.2) | (67.9)  | (69.6)  |
| Interest coverage (x)   | (16.9) | (18.4) | (22.0) | (63.9) | (136.4) | (141.1) |
| Receivables days        | 63.3   | 55.0   | 66.2   | 59.9   | 60.5    | 59.8    |
| Payables days           | 79.4   | 73.2   | 85.4   | 79.4   | 79.4    | 79.4    |
| Inventory days          | 98.5   | 82.3   | 91.7   | 98.5   | 98.5    | 98.5    |
| Effective tax rate (%)  | 13.0   | 12.3   | 13.8   | 13.8   | 13.8    | 13.8    |

Source: Company data, CIRL estimates

**Exhibit 7: Peers' valuation comparison**

|                               | Mkt Cap (HKD mn) | Price (HKD) | Share Price Movement (%) |       |       |        | PER (x) |        |        |       |       |       | P/B (x) |       |      |      |      |       | Yield (%) |       |      |       |       |       |       |       |       |
|-------------------------------|------------------|-------------|--------------------------|-------|-------|--------|---------|--------|--------|-------|-------|-------|---------|-------|------|------|------|-------|-----------|-------|------|-------|-------|-------|-------|-------|-------|
|                               |                  |             | 1D                       | 5D    | 1M    | 3M     | 1YR     | YTD    | FY21   | FY22  | FY23  | FY24E | FY25E   | FY26E | FY21 | FY22 | FY23 | FY24E | FY25E     | FY26E | FY21 | FY22  | FY23  | FY24E | FY25E | FY26E |       |
| <b>Precision mold peers</b>   |                  |             |                          |       |       |        |         |        |        |       |       |       |         |       |      |      |      |       |           |       |      |       |       |       |       |       |       |
| MELROSE INDUSTRIES PLC        | MRO LN           | 77,490      | 59.26                    | 0.1   | (5.7) | (10.4) | 1.2     | 42.8   | 6.4    | 10.4  | -27.9 | -8.1  | 23.0    | 17.0  | 14.3 | 1.1  | 1.2  | 2.2   | 2.1       | 0.8   | 0.3  | 0.9%  | 1.1%  | 0.8%  | 1.2%  | 1.7%  | 2.1%  |
| HAITIAN INTERNATIONAL HLDGS   | 1882 HK          | 43,970      | 27.55                    | 1.5   | 15.3  | 23.0   | 51.9    | 38.3   | 42.6   | 12.0  | 16.7  | 16.0  | 14.1    | 12.5  | 11.1 | 2.2  | 2.3  | 2.1   | 2.0       | 1.8   | 1.6  | 3.4%  | 2.0%  | 2.4%  | 2.9%  | 3.3%  | 3.7%  |
| MISUMI GROUP INC              | 9962 JP          | 39,263      | 137.85                   | (0.1) | 16.0  | 24.0   | 17.3    | (20.1) | 14.0   | 31.2  | 15.0  | 19.7  | 25.5    | 23.5  | 20.8 | 2.4  | 2.2  | 2.1   | 2.4       | 2.3   | 2.1  | 0.8%  | 1.7%  | 1.3%  | 1.0%  | 1.1%  | 1.2%  |
| SHENZHEN CHANGHONG TECHNOLO-A | 300151 CH        | 9,442       | 17.73                    | 1.1   | 11.4  | 1.6    | 26.9    | (3.0)  | (11.0) | 58.8  | 58.6  | 267.3 | 50.7    | 36.0  | 27.5 | 6.2  | 6.1  | 5.2   | 4.7       | 4.3   | -    | 1.2%  | 1.3%  | 0.0%  | 1.0%  | 1.4%  | 1.8%  |
| DONGGUAN CHITWING TECHNOLO-A  | 002855 CH        | 6,538       | 26.53                    | (0.9) | 3.1   | (12.0) | 15.7    | 180.1  | (34.9) | -21.9 | -45.5 | -50.0 | -       | -     | -    | 4.6  | 5.8  | 6.6   | -         | -     | -    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| SHENZHEN SILVER BASIS TECH-A  | 002786 CH        | 5,624       | 11.35                    | (1.4) | 3.7   | (8.2)  | 27.1    | 90.7   | (34.8) | -7.5  | -18.7 | 20.9  | -       | -     | -    | 9.2  | 20.6 | 10.4  | -         | -     | -    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| LK TECHNOLOGY HOLDINGS LTD    | 558 HK           | 4,898       | 3.59                     | 7.5   | 12.9  | 18.5   | 10.5    | (55.0) | (28.8) | 13.7  | 7.9   | 9.3   | 9.3     | 7.6   | 5.6  | 1.9  | 1.3  | 1.3   | 1.1       | 1.0   | 0.9  | 1.5%  | 2.4%  | 1.3%  | 2.2%  | 2.5%  | 3.2%  |
| NINGBO HELI TECHNOLOGY CO-A   | 603917 CH        | 3,100       | 15.21                    | (0.7) | 6.1   | (2.2)  | 43.5    | (31.3) | (21.0) | 30.5  | 34.7  | -     | 19.9    | 12.1  | -    | 1.9  | 2.0  | -     | 1.8       | 1.6   | -    | 1.0%  | 1.0%  | 0.0%  | 0.5%  | 0.8%  | 0.0%  |
| TENMA CORP                    | 7958 JP          | 2,768       | 113.85                   | 0.9   | 2.2   | 1.6    | (2.6)   | (4.4)  | 1.1    | 12.3  | 35.2  | 15.4  | -       | -     | -    | 0.5  | 0.5  | 0.5   | -         | -     | -    | 5.1%  | 5.0%  | 4.2%  | 0.0%  | 0.0%  | 0.0%  |
| SKP RESOURCES BHD             | SKP MK           | 2,706       | 1.73                     | (1.9) | 1.0   | 15.4   | 47.9    | (15.3) | 32.9   | 10.9  | 8.4   | 10.9  | 17.5    | 14.4  | 11.4 | 2.0  | 1.4  | 1.8   | 1.8       | 1.6   | 1.5  | 3.7%  | 6.0%  | 4.6%  | 3.1%  | 3.6%  | 4.5%  |
| QINGDAO HI-TECH MOULDS & P-A  | 301022 CH        | 2,308       | 27.73                    | (0.2) | 2.6   | (28.7) | 84.5    | 16.3   | (6.2)  | 27.8  | 36.4  | 89.6  | -       | -     | -    | 2.2  | 2.3  | -     | -         | -     | -    | 1.0%  | 1.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| NN INC                        | NNBR US          | 1,472       | 29.72                    | 7.6   | 1.6   | (11.8) | (18.1)  | 272.5  | (5.0)  | -12.7 | -6.5  | -3.5  | -15.0   | -44.7 | -    | 0.8  | 0.9  | 1.4   | 1.8       | 2.0   | -    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| EVA PRECISION INDUSTRIAL HLD  | 838 HK           | 1,358       | 0.78                     | 0.0   | 0.0   | 6.8    | 16.4    | (15.2) | (1.3)  | 8.7   | 6.6   | 5.7   | -       | -     | -    | 0.5  | 0.5  | 0.5   | -         | -     | -    | 3.5%  | 4.5%  | 2.6%  | 0.0%  | 0.0%  | 0.0%  |
| SANKO GOSEI LTD               | 7888 JP          | 1,105       | 35.99                    | 2.0   | 8.4   | 1.1    | 6.4     | 32.4   | 43.9   | 11.5  | 8.9   | 9.1   | 8.7     | 7.0   | 5.9  | 0.8  | 0.8  | 0.8   | 0.8       | 0.7   | 0.7  | 2.2%  | 2.6%  | 2.6%  | 2.8%  | 2.8%  | 3.0%  |
| TONGDA GROUP HOLDINGS LTD     | 698 HK           | 798         | 0.08                     | (2.4) | 2.5   | 10.8   | (5.7)   | (20.4) | (20.4) | 2.8   | 5.8   | -0.6  | 3.6     | 2.8   | 2.5  | 0.1  | 0.1  | 0.1   | -         | -     | -    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| FU YU CORP LTD                | FUYU SP          | 559         | 0.73                     | 0.0   | (0.8) | (4.5)  | (9.3)   | (40.9) | (19.1) | 5.4   | 6.7   | -9.4  | -       | -     | -    | 0.6  | 0.6  | 0.7   | -         | -     | -    | 13.0% | 12.8% | 4.8%  | 0.0%  | 0.0%  | 0.0%  |
| JUBILEE INDUSTRIES HOLDINGS   | JU SP            | 83          | 0.27                     | 0.0   | 2.2   | (6.1)  | (4.2)   | (28.1) | (2.1)  | -6.5  | -2.8  | -1.6  | -       | -     | -    | 0.5  | 0.5  | 0.8   | -         | -     | -    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
|                               |                  | 7,875       | 0.8                      | 5.5   | 1.8   | 19.3   | 24.8    | (2.6)  |        | 18.2  | 20.1  | 46.4  | 19.1    | 14.8  | 12.4 | 2.2  | 2.9  | 2.4   | 2.1       | 1.8   | 1.2  | 3.1%  | 3.5%  | 2.7%  | 1.8%  | 2.1%  | 2.8%  |
| TK GROUP HOLDINGS LTD         | 2283 HK          | 1,583       | 1.90                     | (0.5) | 25.0  | 27.5   | 40.7    | 12.4   | 34.8   | 5.6   | 6.9   | 7.7   | 6.1     | 5.2   | 4.6  | 1.0  | 1.0  | 0.9   | 0.9       | 0.9   | 0.9  | 7.4%  | 6.0%  | 10.8% | 13.6% | 15.9% | 17.9% |

Source: Bloomberg, CIRL (Market data as of May 7 afternoon)

**Exhibit 10: TK Group 12 month forward P/E Ratio**


Source: Bloomberg, CIRC

## Risk Factors

Downside risks include: 1) Longer than expected global economic recovery; 2) Escalating trade-war tensions; 3) Plastic production orders are short-term, contractor/customer may switch supplier; 4) Lack of choice in raw material supply; 5) Competition from overseas' players; 6) rapidly changing technology trends, customers no longer lead in their respective industry. 7) Secondary market liquidity risk; 8) Euro depreciation; 9) RMB appreciation



## Rating Policy

|                      | Rating     | Definition                    |
|----------------------|------------|-------------------------------|
| <b>Stock Rating</b>  | Buy        | Outperform HSI by 15%         |
|                      | Neutral    | Between -15% ~ 15% of the HSI |
|                      | Sell       | Underperform HSI by -15%      |
| <b>Sector Rating</b> | Accumulate | Outperform HSI by 10%         |
|                      | Neutral    | Between -10% ~ 10% of the HSI |
|                      | Reduce     | Underperform HSI by -10%      |

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## Analyst Certification

I, Hayman Chiu, Research Director of Cinda International Research Limited., hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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