

Goertek (002241 CH)

3Q24 recovery on track; Poised to benefit from XR/TWS/gaming product launches in 2H24/FY25E

Goertek's 3Q24 revenue/ net profit rose +2%/+138% YoY, exceeding previous market expectations. 3Q24 GPM lifted to 11.4% (-2.2 pts QoQ/+1.2 pts YoY), mainly due to improving efficiency and better scale effect. Looking into 4Q24/FY25E, we expect Goertek's earnings will continue to rebound given improving GPM YoY, prudent cost control and better AR/VR/gaming demand with multiple product launches from major VR/AR players. We raised FY24-26E EPS estimates by 0-6% to reflect 3Q24 results, better operating leverage and expense control. In the longer term, we believe Goertek is well-positioned to capture opportunities in AR/VR product cycle from players such as Meta, Sony, Google, Samsung and Huawei. Maintain BUY with new TP of RMB27.39, based on same 25x FY25E P/E.

■ **3Q24 above expectations on better efficiency and cost controls.** 3Q24 revenue/ net profit rose +2%/+138% YoY, beating market expectations, mainly driven by higher utilization, efficiency improvement and prudent cost controls. We believe Goertek's profitability recovery will continue into 4Q24E and we estimate 4Q revenue/net profit will grow 36.3%/166.7% YoY, benefiting from the launch of Meta Quest 3S, AirPods 4 Series and other ARVR products.

■ **4Q24/2025 Outlook: Continued profitability recovery and sales growth from edge AI and wearable product launches.** In addition to order recovery of AirPods (after share loss in last two years) and product cycle of AirPods 4, we think Meta's Quest 3S and upcoming Sony PS5 Pro will boost revenue growth in 4Q24/1H25E. Overall, we expect Goertek's net profit to grow 164%/30% YoY in FY24/25E.

■ **Maintain BUY.** We think Goertek's industry leadership and product roadmap in XR/acoustics/gaming segments will allow it to benefit from industry recovery and upcoming new XR/gaming console product cycle in FY24/25E. We lifted our FY25/26E EPS estimates by 6%/6% mainly for better wearable product revenue and operating efficiency. Our new TP of RMB27.39 is based on same 25x FY25E P/E. Maintain BUY. Upcoming catalysts include new XR/gaming product launches and continued margin recovery.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	104,894	98,574	103,204	116,686	128,658
YoY growth (%)	34.1	(6.0)	4.7	13.1	10.3
Net profit (RMB mn)	1,749.2	1,088.1	2,867.7	3,725.1	4,325.1
EPS (Reported) (RMB)	0.52	0.32	0.84	1.10	1.27
YoY growth (%)	(59.7)	(38.5)	163.6	29.9	16.1
Consensus EPS (RMB)	N/A	N/A	0.78	1.03	1.25
P/E (x)	45.4	73.8	28.0	21.5	18.6
P/B (x)	2.7	2.5	2.3	2.1	1.9
Yield (%)	0.4	0.4	0.5	0.7	0.8
ROE (%)	6.0	3.5	8.7	10.3	11.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB27.39
(Previous TP)	RMB25.90)
Up/Downside	16.1%
Current Price	RMB23.60

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Stock Data

Mkt Cap (RMB mn)	80,712.0
Avg 3 mths t/o (RMB mn)	1,605.4
52w High/Low (RMB)	24.46/14.53
Total Issued Shares (mn)	3420.0

Source: FactSet

Shareholding Structure

Goertek Group	14.8%
Jiang Bin	8.4%

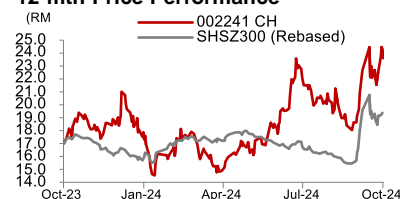
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	22.9%	3.7%
3-mth	8.5%	-6.7%
6-mth	57.6%	39.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related reports:

- Goertek (002241 CH)-Solid GPM recovery in 1H24; Poised to benefit from "AI+XR" trend in 2H24E ([link](#))
- Goertek (002241 CH)- 1Q24 earnings back on track; Positive on VR/AR/ gaming recovery in FY24/25E-29 Apr 2024 ([link](#))

3Q24 results review

Figure 1: 3Q24 review

RMB mn	FY22	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24
Revenue	104,894	24,122	21,050	28,775	24,626	98,574	19,312	21,070	29,264
...YoY	34%	20%	-10%	-6%	-20%	-6%	-20%	0%	2%
Cost of sales	(93,233)	(22,439)	(19,438)	(25,856)	(22,020)	(89,753)	(17,536)	(18,198)	(25,940)
Gross profit	11,661	1,683	1,612	2,919	2,606	8,821	1,776	2,872	3,323
GPM (%)	11.1%	7.0%	7.7%	10.1%	10.6%	8.9%	9.2%	13.6%	11.4%
...YoY	5%	-39%	-44%	-29%	36%	-24%	6%	78%	14%
SG&A	(2,843)	(698)	(346)	(759)	(928)	(2,731)	(609)	(625)	(703)
...% of rev	2.7%	2.9%	1.6%	2.6%	3.8%	2.8%	3.2%	3.0%	2.4%
R&D	(5,227)	(961)	(1,081)	(1,300)	(1,373)	(4,716)	(825)	(1,208)	(1,306)
...% of rev	5.0%	4.0%	5.1%	4.5%	5.6%	4.8%	4.3%	5.7%	4.5%
Operating profit	1,610	(17)	268	486	172	909	384	857	1,281
OPM (%)	1.5%	-0.1%	1.3%	1.7%	0.7%	0.9%	2.0%	4.1%	4.4%
...YoY	-66%	-102%	-80%	-75%	-107%	-44%	2299%	-220%	-163%
Net profit	1,749	106	316	470	196	1,088	380	846	1,120
NPM (%)	1.7%	0.4%	1.5%	1.6%	0.8%	1.1%	2.0%	4.0%	3.8%
...YoY	-59%	-88%	-73%	-73%	-109%	-38%	257%	168%	138%

Source: Company data, CMBIGM estimates

Earnings revisions

Figure 2: New estimates vs Old estimates

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	103,204	116,686	128,658	98,561	112,677	123,501	5%	4%	4%
Gross profit	11,286	13,104	14,525	11,213	12,727	14,030	1%	3%	4%
Operating profit	3,228	4,181	4,847	3,237	3,955	4,586	0%	6%	6%
Net profit	2,868	3,725	4,325	2,876	3,522	4,090	0%	6%	6%
EPS (RMB)	0.84	1.10	1.27	0.85	1.04	1.20	0%	6%	6%
Gross margin	10.9%	11.2%	11.3%	11.4%	11.3%	11.4%	-0.4 ppt	-0.1 ppt	-0.1 ppt
Operating margin	3.1%	3.6%	3.8%	3.3%	3.5%	3.7%	-0.2 ppt	0.1 ppt	0.1 ppt
Net margin	2.8%	3.2%	3.4%	2.9%	3.1%	3.3%	-0.1 ppt	0.1 ppt	0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	103,204	116,686	128,658	101,751	113,410	127,049	1%	3%	1%
Gross profit	11,286	13,104	14,525	11,161	12,723	14,550	1%	3%	0%
Operating profit	3,228	4,181	4,847	2,948	3,928	4,738	9%	6%	2%
Net profit	2,868	3,725	4,325	2,651	3,506	4,254	8%	6%	2%
EPS (RMB)	0.84	1.10	1.27	0.78	1.03	1.25	8%	7%	2%
Gross margin	10.9%	11.2%	11.3%	11.0%	11.2%	11.5%	0 ppt	0 ppt	-0.2 ppt
Operating margin	3.1%	3.6%	3.8%	2.9%	3.5%	3.7%	0.2 ppt	0.1 ppt	0 ppt
Net margin	2.8%	3.2%	3.4%	2.6%	3.1%	3.3%	0.2 ppt	0.1 ppt	0 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: P&L forecast

RMB mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Precision components	13,840	14,004	12,992	14,769	15,360	15,989
... YoY	13%	1%	-7%	14%	4%	4%
Speaker/receiver	8,151	8,396	7,976	9,172	9,447	9,731
MIC (ECM/MEMS)	3,618	3,726	3,503	3,853	3,969	4,088
MEMS sensor	417	430	396	435	457	480
Antenna	761	913	794	953	1,096	1,260
Optical component module	893	539	324	356	392	431
Hearable products	30,297	25,881	24,185	27,215	27,574	27,997
... YoY	14%	-15%	-7%	13%	1%	2%
Airpods	21,099	15,716	9,752	10,578	10,534	10,534
Android TWS	3,900	4,680	6,760	8,580	8,580	8,580
Smart Speaker	2,380	2,856	2,856	2,999	3,149	3,306
Others	2,918	2,628	4,817	5,058	5,311	5,577
Smart products	32,809	63,082	58,709	58,263	70,499	81,093
... YoY	86%	92%	-7%	-1%	21%	15%
Smart Watch	7,650	11,475	13,196	14,516	17,419	20,903
Gaming Console	3,704	11,420	15,844	10,532	14,468	14,468
AR/VR Headset	20,115	16,970	14,555	7,860	11,990	17,770
Robotics/UAV/smart light	1,340	23,218	15,114	25,354	26,622	27,953
Non-main business	1,275	1,927	2,688	2,957	3,253	3,578
... YoY	5%	51%	39%	10%	10%	10%
Total	78,221	104,894	98,574	103,204	116,686	128,658
... YoY	35%	34%	-6%	5%	13%	10%

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	78,221	104,894	98,574	103,204	116,686	128,658
...YoY	35%	34%	-6%	5%	13%	10%
Cost of sales	(67,168)	(93,233)	(89,753)	(91,918)	(103,582)	(114,133)
Gross profit	11,054	11,661	8,821	11,286	13,104	14,525
GPM (%)	14.1%	11.1%	8.9%	10.9%	11.2%	11.3%
...YoY	19%	5%	-24%	28%	16%	11%
SG&A	(2,397)	(2,843)	(2,731)	(2,941)	(3,232)	(3,499)
...% of rev	3.1%	2.7%	2.8%	2.9%	2.8%	2.7%
R&D	(4,170)	(5,227)	(4,716)	(5,047)	(5,601)	(6,047)
...% of rev	5.3%	5.0%	4.8%	4.9%	4.8%	4.7%
Operating profit	4,683	1,610	909	3,228	4,181	4,847
OPM (%)	6.0%	1.5%	0.9%	3.1%	3.6%	3.8%
...YoY	44%	-66%	-44%	255%	30%	16%
Net profit	4,275	1,749	1,088	2,868	3,725	4,325
NPM (%)	5.5%	1.7%	1.1%	2.8%	3.2%	3.4%
...YoY	50%	-59%	-38%	164%	30%	16%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of RMB27.39

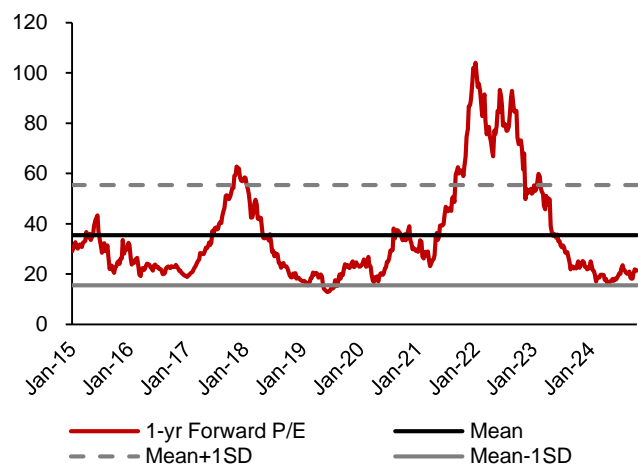
Our new TP of RMB27.39 is based on the same 25x FY25E P/E. Overall, we believe Goertek's industry leadership and product roadmap in TWS/XR/ acoustics/gaming segments will allow the company to benefit from industry recovery and market share gains in FY24/25E. Upcoming catalysts include new XR product launches and continued margin recovery.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
A-listed components												
Goertek	002241 CH	BUY	11,386	23.60	27.39	16%	28.0	21.5	2.3	2.1	8.7	10.3
Luxshare	002475 CH	BUY	44,636	43.95	45.1	3%	23.4	19.1	3.7	3.1	16.0	16.4
O-film	002456 CH	NR	5,889	12.66	NA	NA	73.2	46.4	10.0	9.7	7.6	12.1
Sunway	300136 CH	NR	3,236	23.80	NA	NA	31.3	23.8	3.0	2.7	9.8	11.7
BOE	000725 CH	NR	22,325	4.25	NA	NA	27.4	16.1	1.2	1.1	4.2	6.6
Hans Laser	002008 CH	NR	3,577	24.19	NA	NA	14.8	20.9	1.6	1.5	9.3	7.3
Lens Tech	300433 CH	NR	16,185	23.11	NA	NA	28.6	21.6	2.3	2.2	8.3	10.2
Everwin	300115 CH	NR	2,841	14.95	NA	NA	26.1	22.9	2.7	2.4	11.1	11.4
Average							31.6	24.2	3.4	3.1	9.3	10.6
H-listed components												
FIT Hon Teng	6088 HK	BUY	2,693	2.87	4.3	48%	14.3	8.8	1.0	0.9	7.0	10.3
AAC Tech	2018 HK	BUY	4,697	30.45	37.8	24%	19.4	15.5	1.4	1.3	7.0	8.2
Sunny Optical	2382 HK	BUY	6,608	46.90	72.5	55%	18.7	15.7	1.9	1.8	10.1	11.2
Tongda	698 HK	BUY	122	0.10	0.12	24%	32.3	4.9	0.1	0.1	0.4	2.7
BYDE	285 HK	BUY	9,554	32.95	40.9	24%	15.3	10.7	3.6	2.9	23.8	27.5
Q tech	1478 HK	BUY	712	4.67	6.4	38%	14.0	9.3	1.0	0.9	6.9	9.6
TK Group	2283 HK	BUY	189	1.76	2.8	60%	5.2	4.1	0.8	0.7	15.2	17.4
YOFC	6869 HK	NR	2,033	10.22	NA	NA	8.9	7.7	0.6	0.6	6.8	8.1
Cowell	1415 HK	NR	2,342	21.20	NA	NA	23.7	14.4	4.6	3.5	20.3	26.0
Average							19.7	12.4	1.6	1.4	10.0	12.5

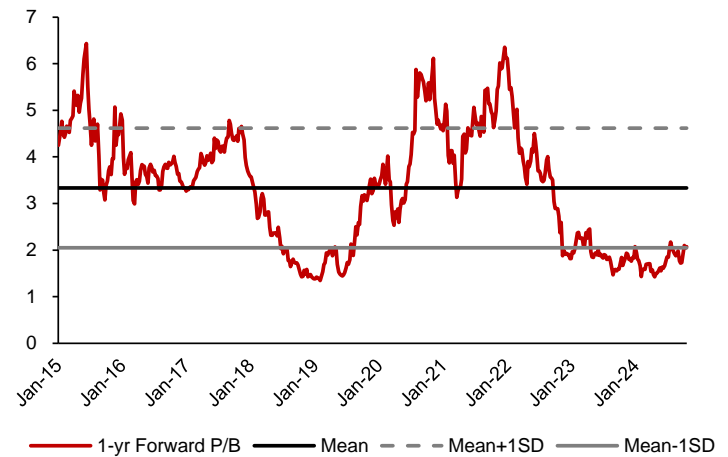
Source: Bloomberg, CMBIGM estimates

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 8: 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	103,204	116,686	128,658
Cost of goods sold	(67,168)	(93,233)	(89,753)	(91,918)	(103,582)	(114,133)
Gross profit	11,054	11,661	8,821	11,286	13,104	14,525
Selling expense	(445)	(548)	(528)	(671)	(607)	(669)
Admin expense	(1,952)	(2,295)	(2,203)	(2,270)	(2,625)	(2,830)
R&D expense	(4,170)	(5,227)	(4,716)	(5,047)	(5,601)	(6,047)
Other income	467	373	373	373	373	373
Other expense	(271)	(1,797)	282	(117)	(117)	(122)
Investment gain/loss	469	(36)	(73)	36	36	36
Other gains/(losses)	(80)	(105)	114	168	168	168
EBIT	4,683	1,610	909	3,228	4,181	4,847
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	3,110	4,063	4,729
Income tax	(299)	282	228	(311)	(406)	(473)
After tax profit	4,307	1,791	1,019	2,799	3,656	4,256
Minority interest	32	42	(69)	(69)	(69)	(69)
Net profit	4,275	1,749	1,088	2,868	3,725	4,325

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	35,162	45,563	40,041	60,294	50,875	72,406
Cash & equivalents	10,049	12,683	14,737	23,660	18,131	29,105
Account receivables	11,949	14,444	12,573	17,211	16,425	20,631
Inventories	12,082	17,349	10,795	17,487	14,384	20,734
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	97,500	90,623	114,403
Current liabilities	29,803	42,721	33,442	54,269	44,293	64,466
Short-term borrowings	4,285	7,121	5,214	7,214	9,214	11,214
Account payables	21,272	30,599	22,121	40,947	28,972	47,145
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	63,044	53,068	73,241
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	21,600	24,697	28,305
Total shareholders equity	27,931	30,258	31,528	34,457	37,554	41,162
Minority interest	604	766	717	717	717	717
Total equity and liabilities	61,079	77,176	73,744	97,500	90,623	114,403

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,606	1,509	791	3,110	4,063	4,729
Depreciation & amortization	2,918	3,651	4,069	2,557	2,959	3,250
Tax paid	(299)	282	228	(311)	(406)	(473)
Change in working capital	1,186	924	2,230	7,497	(8,086)	7,617
Others	187	1,951	834	200	200	200
Net cash from operations	8,598	8,317	8,152	13,053	(1,271)	15,323
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)	(430)	(559)	(649)
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	1,370	1,241	1,151
Net change in cash						
Cash at the beginning of the year	6,913	9,138	10,800	13,153	22,076	16,546
Exchange difference	7	414	10	0	0	0
Cash at the end of the year	9,138	10,800	13,153	22,076	16,546	27,521
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	35.5%	34.1%	(6.0%)	4.7%	13.1%	10.3%
Gross profit	19.4%	5.5%	(24.4%)	28.0%	16.1%	10.8%
EBIT	43.6%	(65.6%)	(43.5%)	255.1%	29.5%	15.9%
Net profit	50.1%	(59.1%)	(37.8%)	163.6%	29.9%	16.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	14.1%	11.1%	8.9%	10.9%	11.2%	11.3%
Return on equity (ROE)	17.9%	6.0%	3.5%	8.7%	10.3%	11.0%
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	18.3	45.4	73.8	28.0	21.5	18.6
P/B	2.9	2.7	2.5	2.3	2.1	1.9
Div yield (%)	0.8	0.4	0.4	0.5	0.7	0.8

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

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