

## Pave way for future growth

Rating	Maintain BUY
Target price	HK\$2.48
Current price	HK\$1.93 <span style="float: right;">Upside:+28.6%</span>

### ■ FY24E preliminary result meet expectation

TK issued a positive profit alert in end-Jan and expects net profit attributable to shareholders to grow >20% Yoy (>HK\$245mn). TK's preliminary result was largely in-line with our FY24E estimates at ~HK\$260mn. TK attributed the growth to **i) overseas' business rebound and significant revenue growth from domestic business, ii) plastic component segment posted >20% Yoy growth, in particular from mobile phones and wearable devices (1H24: +51% Yoy) and iii) improvement in operational efficiency.**

In our operational update meeting with TK's management in Hong Kong in mid-Jan, Management shared that revenue growth momentum from mobile phones and wearable devices, commercial telecom equipment sustained in 2H24. TK's mold fabrication and plastics components utilization rate (UTR) was ~88%/~65% by end-2024 (vs. 84.5%/60% in 1H24), which implied TK's UTR was running at full capacity in 2H24 based on our calculation. Management noted that clients are more cautious on mold spending due to their shorter product life cycle, which would be a slight negative factor for TK's GM. However, we still expect higher UTR and better operating efficiency would still provide ample support to TK's FY24E GM.

### ■ Stable order book on hand, consumer electronics recovery + new clients' orders ramp up support FY25E topline growth

TK's current order book on hand was at ~HK\$900-1,000mn (vs. HK\$1,066mn in 1H24). We believe the stable order book has set up a good fundamental for TK's revenue growth in FY25E, and is well supported by mobile phones and wearables, electronic atomizers, automotive, medical & healthcare, which accounted for >60% of the total order book in 1H24. A recap that revenue from mobile phones and wearables, commercial telecom equipment each grew 51%/44% Yoy to ~HK\$326mn/HK\$90mn in 1H24 and took up ~32%/~9.0% of total revenue.

TK's client diversification remains on track. TK has further received orders from a leading headset brand as well as a renowned global leading professional audio solution provider, after having successfully tapped into a leading global AR company (we believe to be Meta) 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.

### ■ FY25E CAPEX hike to pave way for future growth

TK's 1H24 financial position remains strong, with net operating cash inflow at ~HK\$150mn and having repaid all the bank borrowings, while net cash position stood at ~HK\$1.06bn (~65% of TK's market cap), which enabled TK to maintained its dividend payout ratio at ~42%. With FY24E CAPEX expects to be similar to FY23, we expect payout ratio would be able to stay >50%.

TK expects FY24E CAPEX would be similar to FY23 (i.e.~HK\$70-80mn), and **guided a CAPEX hike in FY25E which will be allocated to Vietnam, Shenzhen and Suzhou plant for capacity expansion to cater customers' demand, CAPEX would normalize in FY26E/27E.** With reference to last round of CAPEX upcycle in FY17-FY19 (HK\$196mn on average), we expect FY25E CAPEX would be <HK\$200mn.

## Company Update

5 February 2025

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### Trading Data

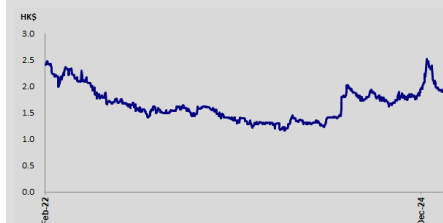
52-Week Range (HK\$)	2.60/1.23
3 Mth Avg Daily Vol (m)	0.63
No of Shares (m)	833.3
Market Cap (HK\$m)	1,608.2
Major Shareholders (%)	Li Pui Leung & Asso. (53.0%) Fidelity (9.99%)

Auditors	PWC
Result Due	FY24E: Mar 2025

### 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, CIRC

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

We leave our FY24E sales and earnings estimate largely unchanged, while lower FY25E/26E earnings by 14.5%/6.6% on the back of lower GM assumption due to new capacity ramp up, as well as clients' more cautious spending on mold which hinders GM upward trajectory. All in all, we expect TK's revenue and net profit still manage to grow 12.8%/15.9% CAGR in FY23-26E (vs. 12.5%/18.5% in our last update in May 2024), it's FY25E 6.0x PE (~1 s.d. below its average PE since listed in end-2013, and ~50% discount to Hong Kong and international peers) still looks undemanding to us. We reiterate TK's rating at BUY with new TP at HK\$2.48 which translates to FY25E 7.8x PE (unchanged 35% discount to peers) and near its average PE since listing.

Though we expect a dip in TK's FCF in FY25E due to increased CAPEX, FCF would be near FY17, FY19 and FY21 level. TK's FCF would normalize in FY26E/27E with lower CAPEX and OCF to grow at mid-teens CAGR in FY23-27E, we believe the impact on TK's dividend payout would be minimal. We expect TK's >40% payout ratio can be maintained in FY24E/25E, this translates into 13.4%/13.6% dividend yield in FY24E/25E. With ~HK\$1.1bn net cash on hand (~66% of total market cap) in 1H24, 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.

**Exhibit 1: TK 1H18-1H24 profit and loss summary**

Year to Dec (HK\$ mn)	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22	2H22	1H23	2H23	1H24	YoY (%)	Remarks
Revenue	1,026	1,273	1,005	1,306	729	1,304	1,021	1,384	969	1,310	856	1,090	1,007	17.7%	Plastic injection (+24% YoY) led the revenue growth 1H24
Gross profit (reported)	323	401	276	391	162	370	242	326	181	332	200	313	250	25.2%	
GM (%)	31.5%	31.5%	27.5%	29.9%	22.3%	28.4%	23.7%	23.6%	18.7%	25.3%	23.3%	28.7%	24.8%		Blended GM +1.5 ppt YoY on better utilization rate
Other income	12.0	12.7	22.7	27.4	19.7	39	27.2	25	26.0	19	13.3	32	19.5	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%	1.9%		
- interest income	5.2	4.8	10.8	9.4	6.8	8	12.9	12	14.3	8	11.7	11	10.8	-7.9%	
(%)	0.5%	0.4%	1.1%	0.7%	0.9%	0.6%	1.3%	0.8%	1.5%	0.6%	1.4%	1.0%	1.1%		
Other gains/(losses) -net	(15)	13	(9)	3	7	(38)	11	(0)	10	(1)	6	3	6	-7.6%	
(%)	-1.5%	1.0%	-0.9%	0.2%	1.0%	-2.9%	1.1%	0.0%	1.0%	0.0%	0.7%	0.3%	0.6%		
Selling expenses	39	49	36	45	32	39	39	40	33	24	28	29	34	22.0%	
(%)	3.8%	3.8%	3.6%	3.4%	4.4%	3.0%	3.8%	2.9%	3.4%	1.9%	3.3%	2.7%	3.4%		
Admin expenses	121	137	118	152	110	144	124	123	129	146	123	152	139	12.8%	
(%)	11.8%	10.7%	11.7%	11.6%	15.1%	11.1%	12.1%	8.9%	13.3%	11.2%	14.4%	13.9%	13.8%		
EBITDA	202	302	201	180	118	263	194	255	129	238	136	232	162	19.5%	
EBITDA (%)	19.7%	23.8%	20.0%	13.8%	16.1%	20.1%	19.0%	18.4%	13.3%	18.2%	15.9%	21.3%	16.1%		
Depreciation & Amortization	42	61	64	71	71	74	76	68	75	58	68	65	60	-11.3%	
D&A (%)	4.1%	4.8%	6.3%	5.4%	9.7%	5.7%	7.5%	4.9%	7.7%	4.5%	7.9%	6.0%	6.0%		
EBIT	160	241	137	224	47	188	118	187	55	180	68	167	102	50.1%	
EBIT (%)	15.6%	18.9%	13.6%	17.2%	6.4%	14.4%	11.6%	13.5%	5.6%	13.7%	7.9%	15.3%	10.1%		Higher GM led to EBIT margin improvement
Net interest income (exp.)	4	3	(0)	(1)	1	4	9	9	11	(0)	4	6	8	-1676.9%	
Net interest income (exp.) (%)	0.4%	0.2%	0.0%	-0.1%	0.1%	0.3%	0.9%	0.6%	1.1%	0.0%	0.4%	0.6%	0.8%		
Associates	0	0	0	0	(1)	1	2	(1)	0	(8)	(9)	1	1		
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%	0.0%	0.0%		
Profit before tax	164	244	137	223	47	194	129	194	66	171	63	174	111	1.6%	
Tax expenses	(23)	(34)	(23)	(36)	(6)	(25)	(14)	(28)	(7)	(25)	(8)	(24)	(32)	-4.2%	
Tax rate (%)	-14.3%	-13.8%	-16.7%	-16.1%	-12.0%	-13.0%	-11.0%	-14.4%	-11.2%	-14.9%	-13.4%	-14.0%	-28.4%		
Minority interest	0	0	0	0	0	0	0	0	0	0	0	0	0		
Net profit	140	210	114	187	41	168	115	166	58	146	55	149	80	2.6%	
Outstanding shares (Mn)	833	833	833	833	831	833	830	833	830	830	828	827	828		
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	0.096		
Net margin (%)	13.7%	16.5%	11.4%	14.3%	5.7%	12.9%	11.3%	12.0%	6.0%	11.1%	6.4%	13.7%	7.9%		
Payout Ratio (%)	35.6%	55.5%	36.5%	40.1%	40.3%	39.6%	39.1%	43.1%	39.9%	49.2%	42.7%	97.5%	41.8%		Payout ratio maintained at ~42% thanks to low CAPEX and ample cash on hand
Dividends	50	117	42	75	17	67	45	72	23	72	23	146	33		
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	0.04		

Source: Company data, CIRC

**Exhibit 2: We lower TK's FY25E/26E earnings forecasts**

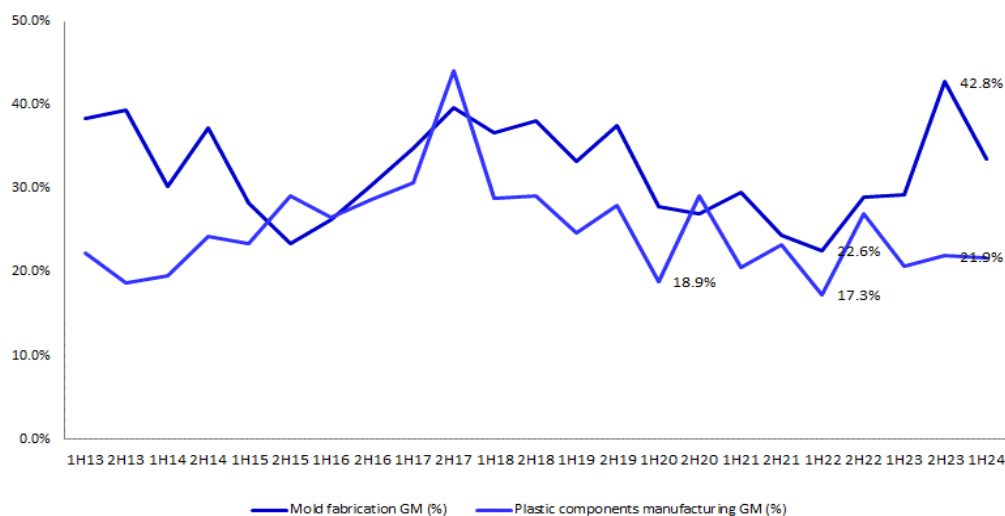
	FY24E (old)	FY24E(new)	Diff	FY25E(old)	FY25E(new)	Diff	FY26E(old)	FY26E(new)	Diff
Revenue	2,314	2,314	0.0%	2,556	2,556	0.0%	2,778	2,797	0.7%
GP	613	613	0.0%	684	649	-5.0%	750	739	-1.4%
GPM	26.5%	26.5%	+0.0bps	26.7%	25.4%	-130bps	27.0%	26.4%	-60bps
Net Profit	259	260	0.3%	308	263	-14.5%	340	318	-6.6%
EPS	0.313	0.314	0.3%	0.372	0.318	-14.5%	0.411	0.384	-6.6%

Source: CIRL estimates

**Exhibit 3: 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	2,079
Group	2,311	2,033	2,404	2,279	1,946	2,314	2,556	2,797
<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%	11.0%
Group	0.5%	-12.0%	18.2%	-5.2%	-14.6%	18.9%	10.5%	9.4%
<b>Segment Gross Margin</b>								
Mold fabrication	35.2%	27.4%	27.1%	26.4%	37.0%	33.5%	32.0%	33.5%
Plastic components manufacturing	26.7%	25.6%	22.2%	22.8%	21.4%	23.7%	23.0%	24.0%

Source: Company data, CIRL estimates

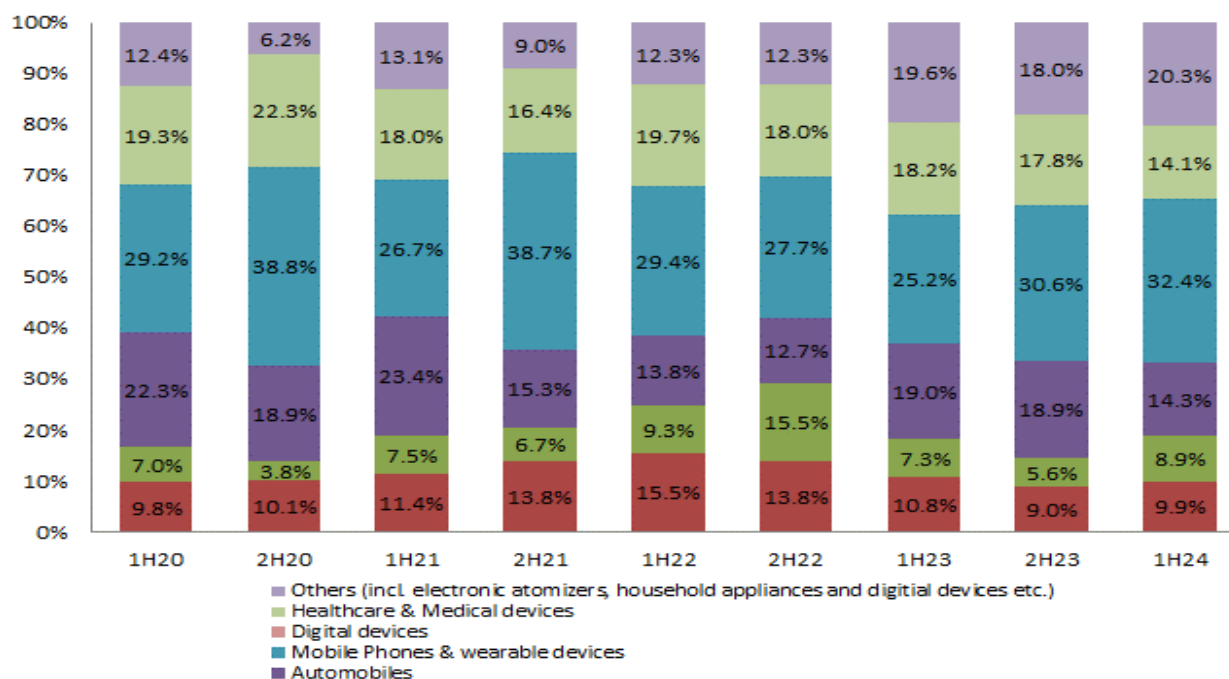
**Exhibit 4: Both segment's GM rebounded Yoy in 1H24**


Sources: Company data, CIRL

**Exhibit 5: Consumer electronics, commercial telecom equipment led revenue growth in 1H24**

Year to Dec (HK\$ Mn)	1H20	2H20	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Smart home devices	71.7	131.4	120	186.9	150.4	180.2	92.4	97.6	99.9
Growth (Yoy%)	-32.6%	-47.9%	67.4%	42.2%	25.3%	-3.6%	-38.6%	-45.8%	8.1%
Commercial telecom equipment	50.9	49.0	79	91.3	89.8	203.3	62.4	61.4	90
Growth (Yoy%)	-75.2%	-59.9%	55.2%	86.3%	13.7%	122.7%	-30.5%	-69.8%	44.2%
Automobiles	162.8	246.3	245.2	207.0	133.7	166.8	162.2	206.5	143.7
Growth (Yoy%)	-20.7%	36.9%	50.6%	-16.0%	-45.5%	-19.4%	21.3%	23.8%	-11.4%
Mobile Phones & wearable devices	212.9	506.6	279.8	524.2	285.3	362.9	215.7	333.8	326.2
Growth (Yoy%)	-11.7%	11.9%	31.4%	3.5%	2.0%	-30.8%	-24.4%	-8.0%	51.2%
Healthcare & Medical devices	140.8	290.5	188.7	222.8	190.8	235.7	155.7	194.0	142.5
Growth (Yoy%)	3.3%	71.4%	34.0%	-23.3%	1.1%	5.8%	-18.4%	-17.7%	-8.5%
Others (incl. electronic atomizers, household appliances and digital devices etc.)	90.3	80.2	137.2	122.3	119.2	161.2	167.5	196.5	204.9
Growth (Yoy%)	108.5%	2.7%	51.9%	52.5%	-13.1%	31.8%	40.5%	21.9%	22.3%
Total revenue	729.4	1,304.0	1,049.9	1,354.5	969.2	1,310.1	855.9	1,089.8	1,007.2
Growth (Yoy%)	-27.4%	-0.1%	43.9%	3.9%	-7.7%	-3.3%	-11.7%	-16.8%	17.7%

Sources: Company data, CIRC

**Exhibit 6: Mobile phone & wearable devices, automobiles contributed ~47% of 1H24 revenue**


Sources: Company data, CIRC



**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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