

L.K. Technology (558 HK)

Solid results in FY21; Strong backlog to drive further growth

LK's net profit in FY21 (Mar year-end) came in at HK\$344mn, surging from HK\$3.3mn in FY20. The result is slightly better than the pre-announced earnings of >HK\$310mn released early this month. The impressive results were driven by a 46% YoY increase in revenue, 0.3ppt YoY increase in gross margin and decline in expense ratios. We expect LK to deliver >30% revenue growth in FY22E, as we understand that the backlog already covered the capacity for this year. We believe LK remains the key beneficiary of the replacement of welding with high pressure pressing in the production of new energy vehicles.

- Key highlights in FY21 results.** Stripping out the other income which includes mainly the one-off items, the recurring net profit would be HK\$285mn which we think is still impressive. Revenue grew 46% YoY to HK\$4bn while gross margin expanded 0.3ppt YoY to 27.7%, the highest level over the past 10 years. Driven by operating leverage, the administrative expense ratio reduced to 8.6% in FY21 from 12.1% in FY20. L.K. proposed a final dividend of HK\$0.03. This, together with the interim dividend of HK\$0.03, represents a payout ratio of 21% for the full year.
- Key segments performance in FY21.** Die-casting machine revenue (67% of total) increased by 42% YoY to HK\$2.7bn, driven by both the automobile and 5G infrastructure demand. Plastic injection moulding machine revenue (31% of total) surged 65% YoY to HK\$1.25bn, driven by medical care, packaging and small home appliances. CNC machining centre revenue grew 19% YoY to HK\$118mn with segment loss slightly reduced to HK\$15mn (from HK\$18mn in FY20).
- Cash conversion and debt level.** LK reported improvement in both inventory and receivable turnover, which helped reduce the cash conversion cycle to 80 days by end-Mar 20 compared with 153 days a year ago. Net debt to equity by end-Mar 21 was 21%. Given the completion share placement in Apr, we estimate LK has already turned to net cash position.
- Company background.** Founded in 1979, LK is a leading player in the manufacturing of die-casting machines. The Company also produces plastic injection molding machines and CNC machining centers. LK has six production plants in Mainland China, one in Taiwan and one in Italy (IDRA, acquired by LK in 2008).

Earnings Summary

(YE 31 Mar)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue (HK\$ mn)	3,604	2,746	4,021	5,369	7,000
YoY growth (%)	-3.3	-23.8	46.4	33.5	30.4
Net income (HK\$ mn)	191	3	344	487	693
EPS (HK\$)	0.160	0.003	0.288	0.409	0.582
YoY growth (%)	-26.3	-98.3	10384.0	41.8	42.1
Consensus EPS (HK\$)	NA	NA	NA	0.300	0.510
P/E (x)	102.7	5974.5	57.0	40.2	28.3
P/B (x)	9.1	9.9	8.0	6.0	5.1
Yield (%)	0.3	0.0	0.4	0.5	0.8
ROE (%)	8.7	0.2	15.5	16.5	18.6
Net gearing (%)	49.8	48.9	20.8	Net cash	Net cash

Source: Company data, CMBIS estimates, Bloomberg

NOT RATED

Current Price

HK\$16.44

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Stock Data

Mkt Cap (HK\$ mn)	20,571
Avg 3 mths t/o (HK\$ mn)	56
52w High/Low (HK\$)	16.98/0.36
Total Issued Shares (mn)	1,251

Source: Bloomberg

Shareholding Structure

Liu's family	62.2%
CloudAlpha Capital	10.9%
Others	26.9%

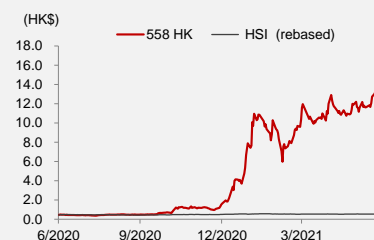
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	38.2%	38.8%
3-mth	71.3%	67.4%
6-mth	1126.9%	1024.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

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Figure 1: LK's revenue and segment results breakdown

	FY18	FY19	FY20	FY21
Revenue (HK\$ mn)				
Die-casting machine	2,618	2,602	1,909	2,700
Plastic injection moulding	1,079	949	756	1,246
CNC machining centre	142	103	99	118
Total (before inter-segment elimination)	3,839	3,653	2,765	4,064
Inter-segment eliminations	(110)	(49)	(19)	(43)
Total revenue	3,729	3,604	2,746	4,021
Growth (YoY)				
Die-casting machine	11.1%	-0.6%	-26.6%	41.5%
Plastic injection moulding	27.1%	-12.1%	-20.3%	64.7%
CNC machining centre	4.9%	-27.6%	-3.1%	19.0%
Total (before inter-segment elimination)	14.9%	-4.8%	-24.3%	47.0%
Inter-segment eliminations	-4.0%	-55.7%	-61.9%	130.7%
Total revenue	15.6%	-3.3%	-23.8%	46.4%

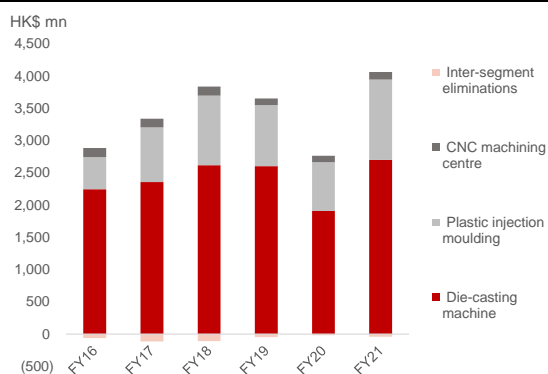
Source: Company data, CMBIS

Figure 2: LK's revenue and segment results breakdown

YE Mar 31 (HK\$ mn)	FY18	FY19	FY20	FY21	Change (YoY)
Revenue					
Die-casting machine	2,618	2,602	1,909	2,700	415%
Plastic injection moulding	1,079	949	756	1,246	64.7%
CNC machining centre	142	103	99	118	19.0%
Total (before inter-segment elimination)	3,839	3,653	2,765	4,064	47.0%
Inter-segment eliminations	(110)	(49)	(19)	(43)	130.7%
Total revenue	3,729	3,604	2,746	4,021	46.4%
Cost of sales	(2,723)	(2,715)	(2,028)	(2,906)	43.3%
Gross profit	1,005	890	718	1,115	55.2%
Other income	66	65	70	75	7.5%
Other gains and losses	97	79	(11)	59	n/a
S&D expenses	(350)	(339)	(291)	(366)	26.0%
Administrative expenses	(413)	(353)	(334)	(344)	3.3%
Other expenses	(12)	(12)	(22)	(23)	8.8%
EBIT	393	329	131	515	293.0%
Net finance income/(expense)	(68)	(76)	(80)	(49)	-39.2%
Finance income	5	5	5	8	45.6%
Finance expenses	(73)	(81)	(85)	(56)	-33.9%
Share of profit of JV and associates	3	0	(1)	(8)	751.3%
Pretax profit	327	254	50	458	813.8%
Income tax	(86)	(63)	(47)	(114)	144.0%
After tax profit	241	191	3	344	10384.0%
MI	1	0	0	0	n/a
Net profit	242	191	3	344	10384.0%
Core net profit	144	111	14	285	1869.6%
D&A	135	139	138	134	-2.8%
EBITDA	528	468	269	649	141.3%

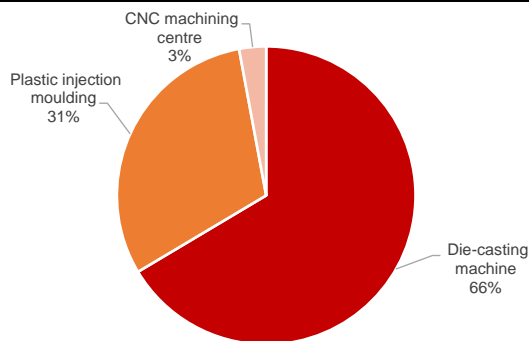
Source: Company data, CMBIS

Figure 3: LK's revenue trend by product



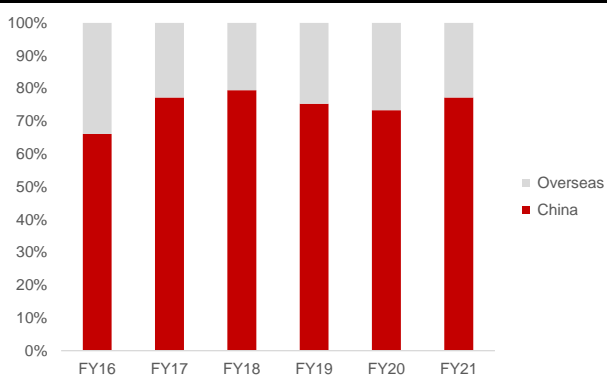
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Figure 4: LK's revenue breakdown in FY21



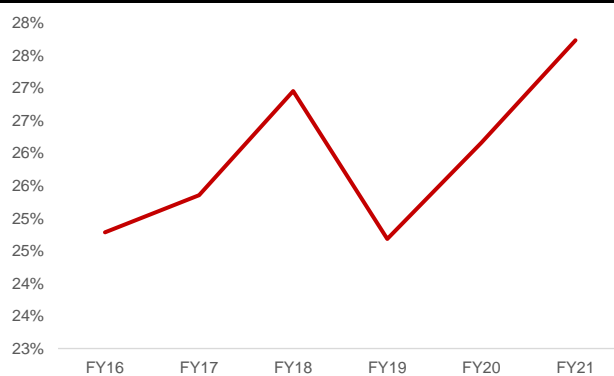
Source: Company data, CMBIS

Figure 5: LK's revenue breakdown by region



Source: Company data, CMBIS

Figure 6: LK's gross margin trend



Source: Company data, CMBIS

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