

TK Group (2283 HK)

Solid FY21; Business expansion on track

TK posted solid revenue/NP growth of 18%/25% YoY in 2021, largely in-line with expectations, mainly driven by 1) strong mobile & wearables/ Polycom/ smart home segments (+12%/70%/51% YoY) and 2) GPM decline (23.7% vs 26.2% in FY21) on rising cost of logistics and raw materials. Looking ahead, mgmt. is positive on client orders and expansion plan in Shenzhen/Vietnam/Huizhou during 2022-25. We expect net profit to grow 21%/27% FY22/23E, backed by order wins from Google/Amazon/e-cigarette and margin recovery. We adjusted TP to HK\$3.38 based on rollovered 8.2x FY22E P/E. Trading at 5.8x FY22E P/E with 23% FY21-24E EPS CAGR, the stock is attractive in our view. Maintain BUY.

- Solid FY21 despite lower GPM; Expect margin recovery in FY22E.** TK net profit rose 25% YoY on the back of 18% revenue growth and 250bps GPM decline due to rising raw material costs. By segment, 1) mobile & wearable (Apple, Otterbox, Jabra) grew 12% YoY, 2) communication (Polycom) grew 70% YoY, and 3) smart home (Google, Amazon) grew 51% YoY, and 4) automobile segment grew +11% YoY. Projects-on-hand in FY21 amounted to HK\$918.3mn, Overall, we expect revenue growth of 12%/19% YoY with GPM recovery to 25.0%/25.6% in FY22/23E.
- M&A in Suzhou and expansion in Shenzhen/Vietnam/Huizhou on track.** Backed by new order wins, TK guided CAPEX of HK\$200mn for investment into automation and capacity expansion: 1) Shenzhen: focus on automation of production lines, 2) Vietnam: 2nd phase to commence MP in July (10% of TK capacity), and 3) Huizhou: new capacity for MP in Jun-Jul. In addition, mgmt. plans to invest HK\$300-400mn in M&A to accelerate e-cigarette expansion.
- Stock is attractive at 5.8x P/E with 23% EPS CARG; Maintain Buy.** We adjusted our TP to HK\$3.38 (42% upside) as we rollover to FY22E target P/E of 8.2x, in-line with its 5-year historical forward P/E. Trading at 5.8x FY22E P/E, we think the stock is attractive, compared with 23% FY21-24E EPS CAGR. Maintain BUY. Catalysts include Google/Amazon product launch and margin recovery in FY22E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	2,033	2,404	2,694	3,213	3,820
YoY growth (%)	(12.0)	18.2	12.1	19.2	18.9
Net income (HK\$ mn)	210	282	342	435	532
EPS (HK\$)	0.25	0.34	0.41	0.52	0.64
YoY growth (%)	1.4	34.7	21.2	27.3	22.1
Consensus EPS (HK\$)	NA	NA	0.45	0.53	NA
P/E (x)	9.4	7.0	5.8	4.5	3.7
P/B (x)	1.4	1.2	1.1	0.9	0.8
Yield (%)	4.2	5.9	7.1	9.0	11.0
ROE (%)	15.0	17.4	18.8	20.9	22.2

Source: Company data, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$3.38
(Previous TP)	HK\$4.09
Up/Downside	+42.0%
Current Price	HK\$2.38

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,925
Avg 3 mths t/o (HK\$ mn)	0.53
52w High/Low (HK\$)	3.59/2.05
Total Issued Shares (mn)	833

Source: Bloomberg

Shareholding Structure

Eastern Mix Co Ltd	42.36%
Pui Leung Li	10.73%
FIL Ltd	8.04%

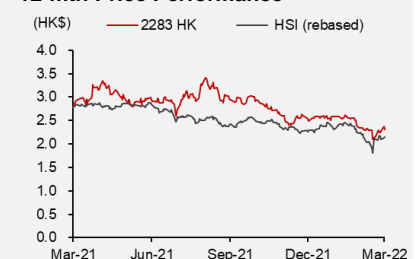
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.9%	5.6%
3-mth	-7.1%	-0.2%
6-mth	-19.9%	-9.5%

Source: Bloomberg

12-mth Price Performance

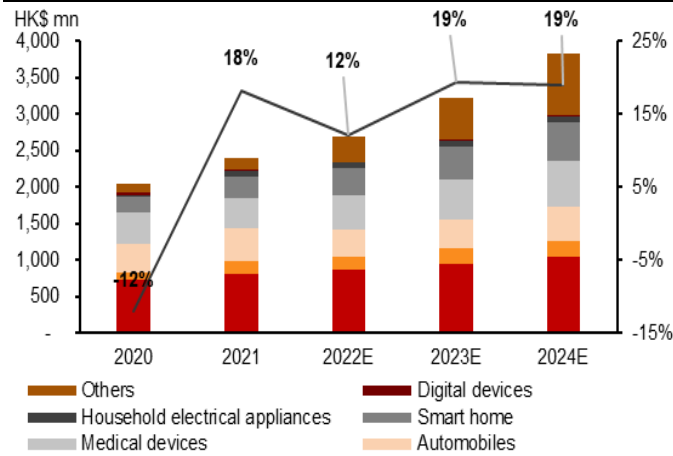


Source: Bloomberg

Auditor: Pricewaterhouse Coopers

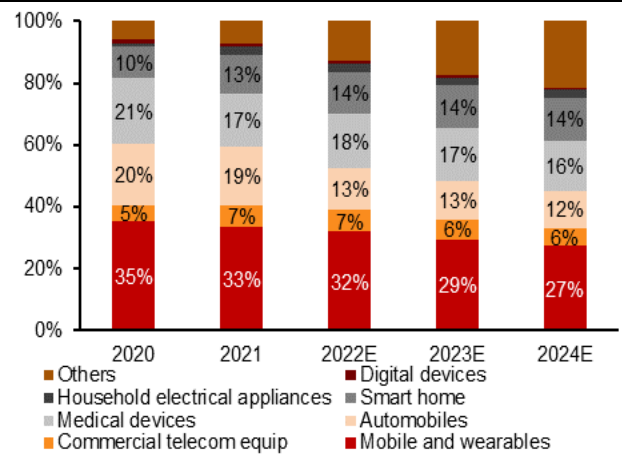
Focus Charts

Figure 1: TK revenue trend



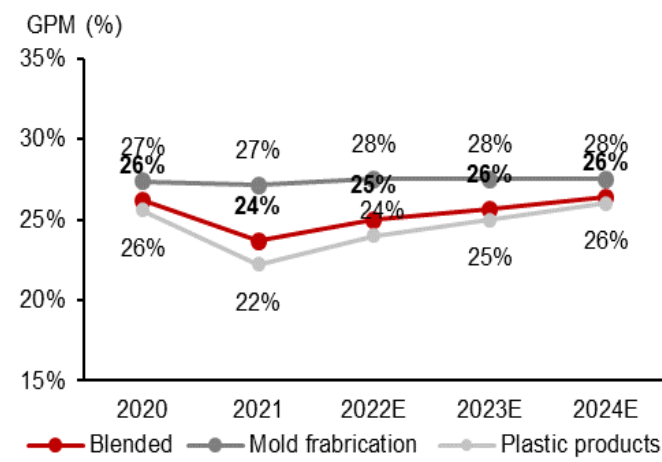
Source: Company data, CMBIGM estimates

Figure 2: TK revenue mix



Source: Company data, CMBIGM estimates

Figure 3: TK margin trend



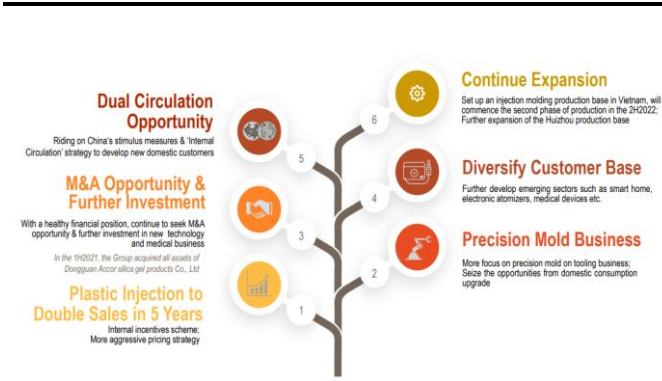
Source: Company data, CMBIGM estimates

Figure 4: 2021 top six customers

#	Company name	Industry	Product category
1	A leading smart phone accessory brand	Mobile phones and wearable devices	Mold and plastic products
2	A leading healthcare product brand	Medical and health care	Mold and plastic products
3	A leading wireless headset brand	Mobile phones and wearable devices	Mold and plastic products
4	Polycom	Commercial telecommunications equipment	Mold and plastic products
5	A leading smart phone brand	Mobile phones and wearable devices	Mold and plastic products
6	A leading smart home product brand	Smart home	Mold and plastic products

Source: Company data, CMBIGM estimates

Figure 5: Development strategies



Source: Company data, CMBIGM estimates

Figure 6: Fast-growing business segments



Source: Company data, CMBIGM estimates

2021 Results Review

Figure 7: 2021 results review

HK\$ mn	FY18	FY19	FY20	FY21	YoY
Revenue	2,299	2,311	2,033	2,404	18.2%
Gross profit	724	667	533	569	6.9%
Operating profit	378	317	207	243	17.5%
Net profit	350	302	210	282	34.7%
EPS (HK\$)	0.42	0.36	0.25	0.34	34.7%
Gross margin	31.5%	28.9%	26.2%	23.7%	-2.5 ppt
Operating margin	16.5%	13.7%	10.2%	10.1%	-0.1 ppt
Net Margin	15.2%	13.1%	10.3%	11.7%	1.4 ppt

Source: Company data, CMBIGM estimates

Figure 8: 2021 revenue breakdown

HK\$ mn	FY20	FY21	FY22E	FY23E	FY24E
Mobile phones and wearable	720	804	860	946	1041
... YoY	4%	12%	7%	10%	10%
Household electrical appliances	22	67	77	84	93
... YoY	-70%	203%	15%	10%	10%
Medical devices	431	412	473	544	626
... YoY	41%	-5%	15%	15%	15%
Commercial telecom equipment	100	170	187	206	227
... YoY	-69%	70%	10%	10%	10%
Automobiles	409	452	362	405	454
... YoY	6%	11%	-20%	12%	12%
Smart home	203	307	368	442	530
... YoY	-43%	51%	20%	20%	20%
Digital devices	32	18	18	18	18
... YoY	-29%	-45%	0%	0%	0%
Others	117	175	349	567	832
... YoY	-4%	50%	99%	62%	47%
Total	1,861	2,404	2,694	3,213	3,820
... YoY	-12%	18%	12%	19%	19%

Source: Company data, CMBIGM

Earnings Revision

Our FY22-23E EPS are 8.4%/0.1% below consensus

Figure 9: CMBI estimates vs consensus

(HK\$ mn)	CMBI		Consensus		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	2,694	3,213	2,753	3,113	-2%	3%
Gross profit	673	824	765	890	-12%	-7%
Operating profit	306	390	371	440	-17%	-11%
Net profit	342	435	368	437	-7%	0%
EPS (HK\$)	0.41	0.52	0.45	0.53	-8%	0%
Gross margin	25.0%	25.6%	27.8%	28.6%	-2.8 ppt	-3 ppt
Operating margin	11.4%	12.1%	13.5%	14.1%	-2.1 ppt	-2 ppt
Net Margin	12.7%	13.6%	13.4%	14.0%	-0.7 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 10: P&L forecast

HK\$ mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,033	2,404	2,694	3,213	3,820
...YoY	-12.0%	18.2%	12.1%	19.2%	18.9%
Cost of sales	-1,501	-1,835	-2,022	-2,389	-2,813
Gross profit	533	569	673	824	1,007
GPM (%)	26.2%	23.7%	25.0%	25.6%	26.4%
...YoY	-20.2%	6.9%	18.2%	22.5%	22.2%
SG&A	-326	-326	-366	-434	-516
...% of rev	16.0%	13.6%	13.6%	13.5%	13.5%
Operating profit	207	243	306	390	491
OPM (%)	10.2%	10.1%	11.4%	12.1%	12.9%
...YoY	-34.8%	17.5%	26.0%	27.5%	25.9%
Net profit	210	282	342	435	532
NPM (%)	10.3%	11.7%	12.7%	13.6%	13.9%
...YoY	-30.5%	34.7%	21.2%	27.3%	22.1%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP HK\$3.38 (42% upside)

Our new TP of HK\$3.38 is based on same 8.2x FY22E P/E, in-line with its 5-yr historical forward P/E, which we view as appropriate given our positive view on long-term outlook and improving profitability/ROE.

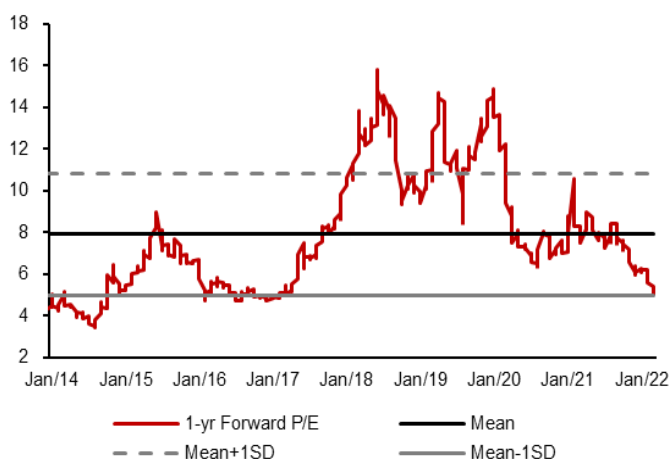
Upcoming catalysts include Google/Amazon smart home product rollouts and margin recovery with better utilization. Major risks include cost inflation and weaker macro environment.

Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	
TK Group	2283 HK	Buy	248	2.38	3.38	42%	5.8	4.5	1.1	0.9	18.8	20.9	
Tongda	698 HK	Buy	185	0.15	0.56	NA	2.5	2.3	0.2	0.1	-	-	
BYDE	285 HK	Hold	4,962	17.26	26.44	53%	9.5	6.8	1.3	1.1	13.2	15.9	
FIH	2038 HK	NR	1,093	1.07	NA	NA	19.5	12.4	0.5	0.5	2.7	4.0	
Average								8.8	6.3	0.9	0.8	14.3	15.4

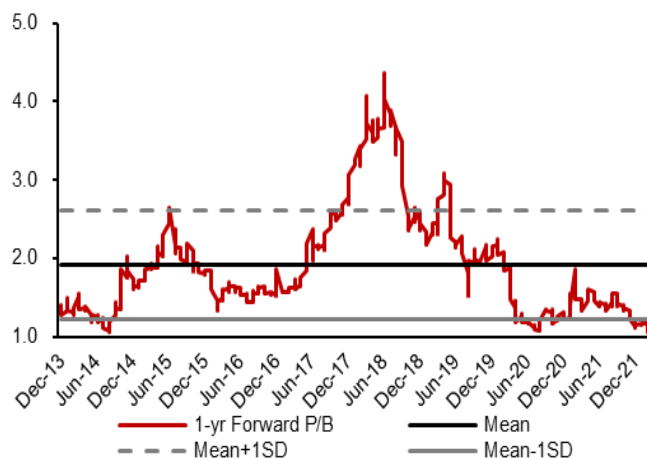
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 13: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,033	2,404	2,694	3,213	3,820
COGS	(1,501)	(1,835)	(2,022)	(2,389)	(2,813)
Gross profit	533	569	673	824	1,007
Selling and marketing	(71)	(79)	(89)	(106)	(126)
Other admin exp.	(255)	(247)	(278)	(328)	(390)
Operating profit	207	243	306	390	491
Financial cost	(10)	(6)	(3)	(4)	(4)
Other income/(losses)	44	88	91	114	124
Pre-tax profit	241	325	393	501	611
Tax	(31)	(42)	(51)	(65)	(79)
Minority interest	-	3	6	9	12
Net profit	210	282	342	435	532

Cash flow summary

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	241	325	393	501	611
Depreciation/amortization	111	114	121	126	112
Change in working capital	46	(202)	226	(398)	197
Others	121	7	14	(7)	(22)
Net cash from operating	518	244	754	221	898
Capex	(60)	(156)	(175)	(209)	(248)
Other	(4)	(8)	-	-	-
Net cash from investing	(65)	(164)	(175)	(209)	(248)
Net borrowings	40	57	26	51	63
Dividend paid	(92)	(117)	(140)	(179)	(218)
Share issuance/(repurchase)	(70)	(33)	(3)	(4)	(4)
Other	(70)	(33)	(3)	(4)	(4)
Net cash from financing	(121)	(92)	(118)	(131)	(159)
Net change in cash	332	(12)	461	(118)	490
Cash at beginning of the year	583	920	1,028	1,488	1,370
Exchange difference	5	-	-	-	-
Cash at the end of the year	920	1,028	1,488	1,370	1,860

Balance sheet

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	1,848	2,127	2,428	2,758	3,135
Cash & equivalents	920	1,028	1,488	1,370	1,860
Account receivables	273	360	305	487	455
Inventories	447	496	391	657	577
Pledged bank deposits	148	174	174	174	174
Other current assets	9	8	10	11	11
Non-current assets	724	724	748	787	884
PPE	557	528	551	591	687
Other non-current assets	167	196	196	196	196
Total assets	2,572	2,851	3,175	3,545	4,019
Current liabilities	1,013	964	1,122	1,219	1,360
ST borrowings	224	194	255	291	335
Account payables	335	288	354	405	489
Other current liabilities	454	481	512	523	536
Non-current liabilities	165	265	230	245	264
LT borrowings	58	145	109	125	144
Other non-current liabilities	107	120	120	120	120
Total liabilities	1,178	1,229	1,352	1,465	1,624
Share capital	83	83	83	83	83
Reserves	1,322	1,549	1,751	2,008	2,322
Minority interest	3	3	6	9	12
Shareholders' equity	1,395	1,622	1,824	2,081	2,394
Total equity and liabilities	2,572	2,851	3,175	3,545	4,019

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Mobile and wearables	35	33	32	29	27
Telecom. equipment	5	7	7	6	6
Automobiles	20	19	13	13	12
Medical devices	21	17	18	17	16
Smart home	10	13	14	14	14
Household elec. appliance	1	3	3	3	2
Digital devices	2	1	1	1	0
Others	6	7	13	18	22
Growth (%)					
Revenue	(12.0)	18.2	12.1	19.2	18.9
Gross profit	(20.2)	6.9	18.2	22.5	22.2
Operating profit	(34.8)	17.5	26.0	27.5	25.9
Net profit	(30.5)	34.7	21.2	27.3	22.1
Profit & loss ratio (%)					
Gross margin	26.2	23.7	25.0	25.6	26.4
Operating margin	10.2	10.1	11.4	12.1	12.9
Net profit margin	10.3	11.7	12.7	13.6	13.9
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.8	2.2	2.2	2.3	2.3
Receivable turnover days	60.2	43.7	48.0	46.0	46.7
Inventory turnover days	109	98.6	70.5	100.3	74.8
Payable turnover days	81.6	57.3	64.0	61.9	63.5
Profitability (%)					
ROE	15.0	17.4	18.8	20.9	22.2
ROA	8.2	9.9	10.8	12.3	13.2

Source: Company data, CMBIGM estimates

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