Goertek (002241 CH)

Riding on TWS/VR boom; Upgrade to BUY

We upgrade Goertek to BUY (from Hold) as we turn more positive on its product pipeline of AirPods Pro/Studio and Oculus Quest/PSVR in FY20/21E, backed by TWS/wearables upcycle, capacity expansion and impressive yield improvement. We expect 2H20E/FY21E net profit to grow 118%/ 51% YoY, and our FY21/22E EPS are 19%/13% above consensus. Our new TP of RMB46 is based on 40x FY21E P/E, in-line with 1-sd above 5-yr average P/E, given 35% FY20-22E EPS CAGR, strong earnings visibility and improving ROE. Near-term catalysts include product launches of AirPods Studio, HomePod 2 and Oculus Quest2 in 2H20E.

- **TWS: AirPods momentum, share gains and improving margin**. We are positive on Goertek's leading market position and growth outlook of its AirPods/TWS segment. We estimate AirPods shipment will grow 45%/22% YoY to 94mn/115mn in FY20E/21E, and Goertek will gain share allocation from 20% in FY19 to 23%/37% in FY20/21E. In addition, we expect improving product mix and production yield to drive earnings upside in after new production lines of AirPods Pro commerce operations in 3Q20E.
- **VR/AR: Oculus Quest and Sony PSVR to boost growth.** Goertek is global pioneer in VR/AR industry since partnership with Oculus and Sony in 2014. We expect Goertek to start shipment of Oculus Quest series in 2H20E, and VR/AR segment will regain traction with 82%/40% YoY growth in FY20/21E, backed by new product cycle from Oculus Quest 2 and Sony PSVR 2. In addition, Goertek recently announced to raise RMB4bn convertible bond to expand capacity for 28.6mn TWS earphones, 3.5mn VR/AR products and 5mn AR/VR optical modules, which will help boost share gain and drive revenue growth in FY20-21E.
- **Upgrade to BUY with new TP of RMB46.** We revised up our FY20-22E EPS by 27-51%, mainly to reflect our more positive view on AirPods shipment/margin upside given strong consumer demand and cancellation of in-box earphones in iPhone 12 in 2H20E. Our FY21/22E EPS are 19%/13% above consensus, and our TP of RMB46 is based on 40x FY21E P/E, in-line 1-sd above its 5-yr average P/E, given 35% FY20-22E EPS CAGR, strong earnings visibility and improving ROE. Near-term catalysts include product launches of AirPod Studio, HomePod 2 and Oculus Quest2 in 2H20E.

Earnings Summary

(YE31Dec)	FY18	FY19	FY20E	FY21E	FY22E
Revenue (RMB mn)	23,751	35,148	50,443	76,661	93,097
YoY growth (%)	(7.0)	48.0	43.5	52.0	21.4
Net income (RMB mn)	868	1,281	2,454	3,731	4,466
EPS (RMB)	0.27	0.39	0.76	1.15	1.38
YoY growth (%)	(60.3)	46.2	91.7	52.0	19.7
Consensus EPS (RMB)	NA	NA	0.71	0.96	1.2
P/E (x)	144.0	98.5	51.4	33.8	28.3
P/B (x)	8.3	7.8	7.0	6.1	5.2
Yield (%)	0.3	0.3	0.5	0.7	0.9
ROE (%)	6	7.9	13.7	18.0	18.5
Net gearing (%)	37	19	25	39	25

Source: Company data, Bloomberg, CMBIS estimate

BUY (Up)

Target Price	**RMB46.0**
(Previous TP	RMB9.0)
Up/Downside	**+18.0%**
Current Price	**RMB38.88**

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	126,170
Avg. 3mths t/o (RMB mn)	3,680.44
52W High/Low (RMB)	45.17/14.08
Total Issued Shares (mn)	3,245

Source: Bloomberg

Shareholding Structure

Weifang Geer Group	17.99%
Jiang Bin	11.51%
Jiang Long	6.02%

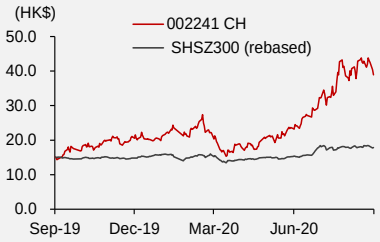
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	0.8%	1.1%
3-mth	66.6%	42.7%
6-mth	75.9%	55.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ruihua

Earnings Revision

Figure 1: Earnings revisions

	New			Old			Diff (%)		
RMB mn	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	50,443	76,661	93,097	44,819	60,283	72,241	13%	27%	29%
Gross Profit	8,722	12,978	15,645	7,317	9,725	10,688	19%	33%	46%
Operating Profit	2,877	4,361	5,216	2,304	3,028	3,602	25%	44%	45%
Net profit	2,454	3,731	4,466	1,947	2,555	2,953	26%	46%	51%
EPS (RMB)	0.76	1.15	1.38	0.60	0.78	0.91	27%	47%	51%
Gross Margin	17.3%	16.9%	16.8%	16.3%	16.1%	14.8%	1ppt	0.8ppt	2ppt
Operating Margin	5.7%	5.7%	5.6%	5.1%	5.0%	5.0%	0.6ppt	0.7ppt	0.6ppt
Net Margin	4.9%	4.9%	4.8%	4.3%	4.2%	4.1%	0.5ppt	0.6ppt	0.7ppt

Source: Bloomberg, CMBIS

Figure 2: CMBIS estimates vs consensus

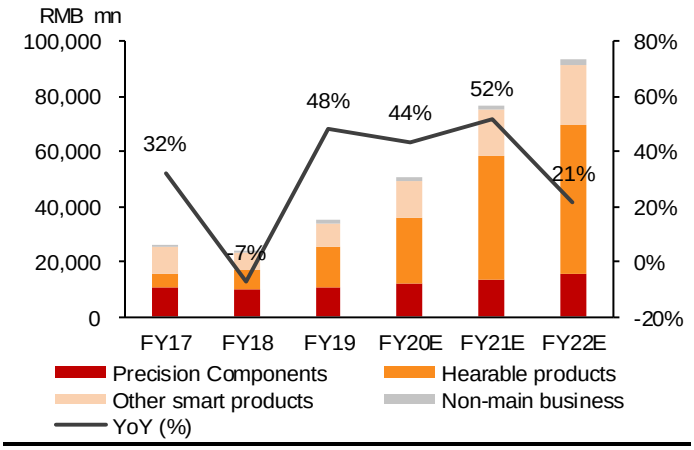
	CMBIS			Consensus			Diff (%)		
RMB mn	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	50,443	76,661	93,097	48,879	68,260	82,327	3%	12%	13%
Gross Profit	8,722	12,978	15,645	8,084	11,311	13,684	8%	15%	14%
Operating Profit	2,877	4,361	5,216	2,810	4,005	5,055	2%	9%	3%
Net profit	2,454	3,731	4,466	2,328	3,344	4,205	5%	12%	6%
EPS (RMB)	0.76	1.15	1.38	0.71	0.96	1.21	6%	20%	13%
Gross Margin	17.3%	16.9%	16.8%	16.5%	16.6%	16.6%	0.8ppt	0.4ppt	0.2ppt
Operating Margin	5.7%	5.7%	5.6%	5.7%	5.9%	6.1%	0ppt	-0.2ppt	-0.5ppt
Net Margin	4.9%	4.9%	4.8%	4.8%	4.9%	5.1%	0.1ppt	0ppt	-0.3ppt

Source: Bloomberg, CMBIS

Financial Analysis

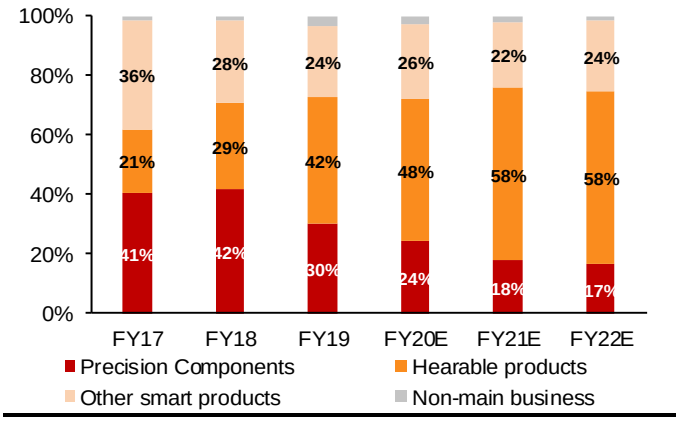
Expect revenue/net profit to grow at 36%/35% CAGR during FY20-22E

Figure 3: Revenue growth estimates



Source: Company data, CMBIS estimates

Figure 4: Revenue breakdown (FY17-22E)



Source: CMBIS estimates

Figure 5: Revenue breakdown

RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Precision component	**9,931**	**10,620**	**12,171**	**13,758**	**15,401**
…YoY	*-4%*	*7%*	*15%*	*13%*	*12%*
Speaker/Receiver	6,500	6,175	6,793	7,336	7,703
MIC (ECM/MEMS)	2,200	2,860	3,289	3,782	4,350
MEMS sensor	300	330	380	417	459
Antenna	300	390	585	761	989
Optical component module	631	865	1,125	1,462	1,901
Hearable products	**6,813**	**14,823**	**24,027**	**44,308**	**54,043**
…YoY	*25%*	*118%*	*62%*	*84%*	*22%*
AirPods	2,240	9,347	16,365	33,862	41,470
Android TWS	1,000	1,400	3,000	5,040	6,250
Smart Speakers	500	850	1,275	1,849	2,588
Other smart products	**6,627**	**8,514**	**12,935**	**17,153**	**22,067**
…YoY	*-29%*	*28%*	*52%*	*33%*	*29%*
Smart Watch	2,000	3,000	4,500	6,075	8,201
VR/AR	3,000	3,300	6,000	8,400	10,920
Robotics/UAV/smart light	1,627	2,214	2,435	2,678	2,946
Non-main business	**380**	**1,191**	**1,310**	**1,441**	**1,586**
…YoY	*-13%*	*214%*	*10%*	*10%*	*10%*
Total	**23,751**	**35,148**	**50,443**	**76,661**	**93,097**
…YoY	*-7%*	*48%*	*44%*	*52%*	*21%*

Source: Company data, CMBIS

Figure 6: P&L forecast

RMB mn	FY18	FY19	1Q20	2Q20	3Q20E	4Q20E	FY20E	FY21E	FY22E
Revenue	**23,751**	**35,148**	**6,474**	**9,099**	**15,121**	**19,749**	**50,443**	**76,661**	**93,097**
…YoY	*-7%*	*48%*	*13%*	*16%*	*43%*	*79%*	*44%*	*52%*	*21%*
Cost of sales	(19,282)	(29,726)	(5,294)	(7,470)	(12,524)	(16,434)	(41,722)	(63,682)	(77,453)
Gross profit	**4,469**	**5,422**	**1,180**	**1,629**	**2,597**	**3,316**	**8,722**	**12,978**	**15,645**
GPM (%)	18.8%	15.4%	18.2%	17.9%	17.2%	13.9%	17.3%	16.9%	16.8%
…YoY	*-20%*	*21%*	*23%*	*41%*	*46%*	*117%*	*61%*	*49%*	*21%*
SG&A	(1,609)	304	(352)	(288)	(613)	(916)	(2,169)	(3,296)	(4,003)
…% of rev	6.8%	0.9%	5.4%	3.2%	4.1%	4.6%	4.3%	4.3%	4.3%
R&D	(1,334)	(1,807)	(338)	(635)	(650)	(1,152)	(2,774)	(4,140)	(5,027)
…% of rev	*5.6%*	*5.1%*	*5.2%*	*7.0%*	*4.3%*	*5.8%*	*5.5%*	*5.4%*	*5.4%*
Operating profit	**1,006**	**1,496**	**360**	**618**	**1,096**	**780**	**2,877**	**4,361**	**5,216**
OPM (%)	*4.2%*	*4.3%*	*5.6%*	*6.8%*	*7.2%*	*3.9%*	*5.7%*	*5.7%*	*5.6%*
…YoY	*-60%*	*49%*	*46%*	*53%*	*100%*	*162%*	*92%*	*52%*	*20%*
Net profit	**868**	**1,281**	**294**	**487**	**932**	**719**	**2,454**	**3,731**	**4,466**
NPM (%)	*3.7%*	*3.6%*	*4.5%*	*5.3%*	*6.2%*	*3.6%*	*4.9%*	*4.9%*	*4.8%*
…YoY	*-59%*	*48%*	*45%*	*52%*	*102%*	*143%*	*92%*	*52%*	*20%*

Source: Company data, CMBIS

Valuation

Upgrade to BUY with new TP of RMB46.0

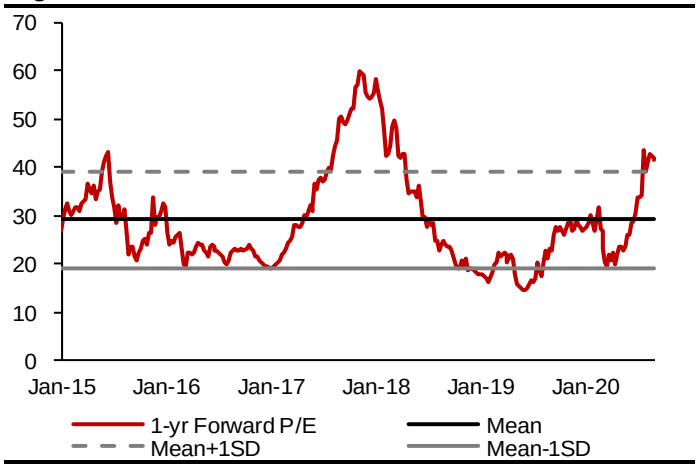
We revised up FY20-22E EPS by 27-51% to reflect our positive view on AirPods shipment/ margin upside given strong consumer demand and cancellation of in-box earphones in iPhone12 in 2H20E. Our FY21/22E EPS are 19%/13% above consensus. Our TP of RMB46 is based on 40x FY21E P/E, in-line 1-sd above its 5-yr average P/E, given 35% FY20-22E EPS CAGR, strong earnings visibility and improving ROE. Near-term catalysts include product launches of AirPod Studio, HomePod 2 and Oculus Quest2 in 2H20E.

Figure 7: Peers' valuation

Company	Ticker	Rating	Market Cap US$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
A-listed components												
Goertek	002241 CH	Buy	18,428	38.88	46.0	18%	51.2	33.8	7.0	6.1	13.7	18.0
Luxshare	002475 CH	Buy	52,684	51.65	74.2	44%	38.8	29.2	9.8	7.5	25.2	25.8
O-film	002456 CH	NR	5,770	14.66	NA	NA	29.1	21.4	3.6	3.1	12.3	14.5
Sunway	300136 CH	NR	7,946	56.50	NA	NA	38.9	28.1	8.9	6.8	23.6	24.5
BOE	000725 CH	NR	26,583	5.30	NA	NA	44.2	22.2	1.9	1.8	4.1	7.2
Hans Laser	002008 CH	NR	5,307	34.05	NA	NA	29.7	23.0	3.8	3.3	12.5	14.6
Lens Tech	300433 CH	NR	20,815	32.51	NA	NA	33.3	26.6	5.2	4.5	17.0	18.0
Everwin	300115 CH	NR	3,002	22.59	NA	NA	38.5	27.3	4.2	3.8	11.1	13.5
Holitech	002217 CH	NR	2,517	5.53	NA	NA	-	-	-	-	-	-
			Average				**38.0**	**26.4**	**5.6**	**4.6**	**14.9**	**17.0**
H-listed components												
FIT Hon Teng	6088 HK	Buy	2,603	2.93	4.1	40%	15.5	10.7	1.1	1.0	7.3	9.8
AAC Tech	2018 HK	Hold	7,375	47.30	47.3	0%	23.8	17.0	2.5	2.4	10.7	13.9
Sunny Optical	2382 HK	Buy	16,615	117.40	148.0	26%	25.4	19.5	6.9	5.3	27.2	27.2
Tongda	698 HK	Hold	355	0.43	0.5	18%	15.2	6.1	0.4	0.4	2.8	6.9
BYDE	285 HK	Buy	10,844	37.30	37.7	1%	13.2	12.8	3.5	2.9	26.5	22.4
Q tech	1478 HK	Buy	1,385	9.16	16.6	81%	12.1	10.0	2.7	2.2	22.0	21.8
TK Group	2283 HK	Buy	280	2.60	2.3	-10%	4.7	4.0	1.7	1.7	35.7	41.7
Truly	732 HK	NR	390	0.92	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	29,002	18.42	NA	NA	52.8	56.6	1.3	1.3	3.2	2.1
YOFC	6869 HK	NR	2,452	13.34	NA	NA	11.8	9.8	0.9	0.9	8.4	9.2
O-NET	877 HK	NR	683	6.35	NA	NA	24.0	18.7	2.1	1.9	7.1	9.1
Cowell	1415 HK	NR	306	2.85	NA	NA	6.2	5.2	0.9	0.9	11.2	13.8
			Average				**18.6**	**15.5**	**2.2**	**1.9**	**14.7**	**16.2**

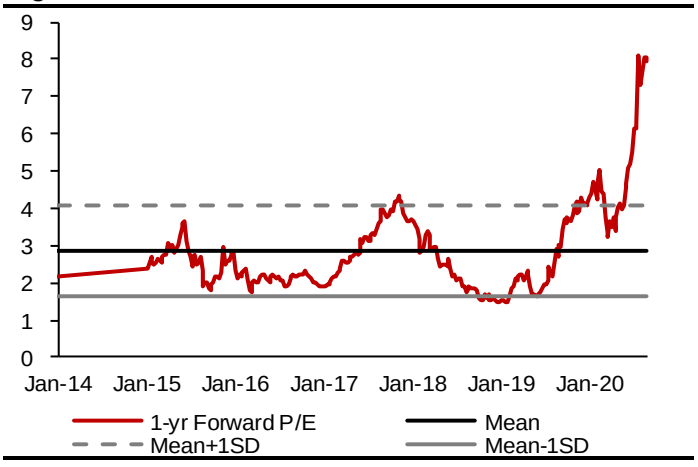
Source: Bloomberg, CMBIS

Figure 8: 12M forward P/E band



Source: Company data, CMBIS

Figure 9: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**23,751**	**35,148**	**50,443**	**76,661**	**93,097**
Cost of sales	19,282	29,726	41,722	63,682	77,453
Gross profit	**4,469**	**5,422**	**8,722**	**12,978**	**15,645**
Selling exp	569	534	908	1,380	1,676
Admin exp (excl. R&D)	1,040	838	1,261	1,917	2,327
R&D exp	1,334	1,807	2,774	4,140	5,027
Finance costs	318	364	421	533	646
Other operating exp.	201	383	480	648	753
Operating profit	**1,006**	**1,496**	**2,877**	**4,361**	**5,216**
Other non-oper exp.	(13)	(25)	(25)	(25)	(25)
Pre-tax profit	**993**	**1,472**	**2,852**	**4,336**	**5,191**
Income tax expense	149	192	399	607	727
Minority interests	(23)	(1)	(1)	(1)	(1)
Net profit to shareholders	**868**	**1,281**	**2,454**	**3,731**	**4,466**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net profit	844	1,279	2,453	3,729	4,464
Depreciation/amortization	1,635	1,992	1,319	1,512	1,682
Change in working capital	(866)	1,542	(1,143)	(3,802)	(109)
Others	663	638	421	533	646
Net cash from operating	**2,276**	**5,451**	**3,049**	**1,972**	**6,683**
Capex	4,240	3,177	3,000	3,000	3,000
Other	(8,503)	(6,215)	(6,000)	(6,000)	(6,000)
Net cash from investing	**(4,263)**	**(3,038)**	**(3,000)**	**(3,000)**	**(3,000)**
Share issuance	16	1	0	0	0
Dividend paid	522	595	608	924	1,106
Other	92	(1,933)	363	(381)	(858)
Net cash from financing	**630**	**(1,337)**	**971**	**543**	**248**
Net change in cash	(1,356)	1,077	1,020	(485)	3,931
Cash at beginning of the year	3,358	2,008	3,095	4,115	3,630
Exchange difference	6	10	0	0	0
Cash at the end of the year	**2,008**	**3,095**	**4,115**	**3,630**	**7,562**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	**13,820**	**17,704**	**23,373**	**34,480**	**37,813**
Cash & equivalents	2,392	3,613	4,633	4,148	8,080
Account receivables	7,211	8,147	10,974	17,504	17,062
Inventories	3,549	5,296	7,118	12,180	12,024
Prepayment	161	218	218	218	218
Other current assets	508	429	429	429	429
Non-current assets	**15,922**	**16,957**	**18,638**	**20,126**	**21,444**
PPE	11,117	11,502	13,184	14,672	15,990
Deferred income tax	205	198	198	198	198
Other non-current assets	4,600	5,256	5,256	5,256	5,256
Total assets	**29,742**	**34,660**	**42,011**	**54,607**	**59,258**
Current liabilities	**13,453**	**17,558**	**23,063**	**32,853**	**34,146**
Deferred income	104	105	105	105	105
Account payables	5,615	9,675	13,180	20,970	20,263
Tax payable	91	140	140	140	140
Other current liabilities	7,642	7,639	9,639	11,639	13,639
Non-current liabilities	**1,100**	**973**	**973**	**973**	**973**
Deferred income	284	397	397	397	397
Deferred tax liability	209	233	233	233	233
Other non-current liabilities	606	344	344	344	344
Total liabilities	**14,553**	**18,531**	**24,036**	**33,827**	**35,119**
Share capital	3,245	3,245	3,245	3,245	3,245
Reserves	11,956	12,862	14,709	17,515	20,875
Minority interest	(12)	22	21	19	18
Shareholders' equity	**15,190**	**16,129**	**17,974**	**20,780**	**24,138**
Total equity and liabilities	**29,742**	**34,660**	**42,011**	**54,607**	**59,258**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Precision Components	42	30	24	18	17
Hearable products	29	42	48	58	58
Other smart products	28	24	26	22	24
Non-main business	2	3	3	2	2
Growth (%)					
Revenue	(7.0)	48.0	43.5	52.0	21.4
Gross profit	(20.5)	21.3	60.9	48.8	20.5
Operating profit	(59.7)	48.7	92.3	51.6	19.6
Net profit	(59.4)	47.6	91.7	52.0	19.7
Profit & loss ratio (%)					
Gross margin	18.8	15.4	17.3	16.9	16.8
Operating margin	4.2	4.3	5.7	5.7	5.6
Net profit margin	3.7	3.6	4.9	4.9	4.8
Balance sheet ratio					
Net debt/total equity (x)	0.4	0.2	0.3	0.4	0.2
Current ratio (x)	1.0	1.0	1.0	1.0	1.1
Receivable turnover days	104	80	80	80	80
Inventory turnover days	62	54	54	54	54
Payable turnover days	100	94	94	94	94
Profitability (%)					
ROE	5.7	7.9	13.7	18.0	18.5
ROA	2.9	3.7	5.8	6.8	7.5
Per share data (RMB)					
EPS	0.27	0.39	0.76	1.15	1.38
DPS	0.10	0.10	0.19	0.28	0.34

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

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CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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