

Karrie International (01050.HK)

Sales of AI server molds and server enclosure orders have been steadily increasing, driving further growth in gross margin and profitability
China | Information Technology Equipment

18 February 2024

Investment Summary

Karrie International delivered solid growth in the 1H2025FY (For the six months ended September 30), with revenue reaching HK\$1.53 billion, representing a 6% yoy increase. The company benefited from strong demand in the artificial intelligence (AI) server market, which drove steady growth in sales of server molds and enclosures. As a result, the gross profit margin improved by 0.5 percentage points to 13.2%, enhancing overall profitability. Net profit surged 39% yoy to HK\$102 million, with the net profit margin increasing from 5.8% to 6.7%. Earnings per share (EPS) rose to HK5.0 cents (1H2024FY: HK3.6 cents), while an interim dividend of HK2.5 cents per share (1H2024FY: HK1.5 cents) was declared, amounting to a total payout of HK\$50.53 million and a payout ratio of 50%.

Financial Performance Highlight

For the six months ended September 30 2024, Karrie International's revenue increased to HK\$1.53 billion, up 6% yoy. The metal and plastic business demonstrated exceptional performance, with revenue reaching HK\$952 million, representing a 14% yoy growth and accounting for 62% of total revenue. This expansion was primarily driven by robust demand for AI server enclosures and molds. In contrast, the electronic manufacturing services (EMS) business faced headwinds, with revenue declining 5% yoy to HK\$574 million due to weaker demand for traditional electronic products.

Gross profit rose to HK\$201 million, a 20% increase from HK\$167 million in 1H2024FY. The gross profit margin improved from 12.7% to 13.2%, supported by three key factors. First, the increasing contribution from the higher-margin metal and plastic business boosted overall profitability. Second, raw material costs declined, providing a favorable cost advantage. Lastly, enhanced production efficiency through automation upgrades and process optimization helped reduce manufacturing costs.

Operating profit reached HK\$135 million, up 31% yoy, with the operating profit margin increasing from 7.2% to 8.9%. Net finance costs decreased 10% yoy to HK\$18.15 million, reflecting the company's efforts to optimize its loan portfolio and reduce borrowing costs. Net profit totaled HK\$102 million, marking a 39% yoy increase, while the net profit margin expanded from 5.8% to 6.7%, demonstrating improved operational efficiency and a more favorable revenue mix.

Operating cash flow remained positive at HK\$88.1 million, though lower than the HK\$190 million recorded in the previous year. The decline was primarily attributed to higher inventory levels, as the company invested in expanding production capacity at its Thailand facility to meet rising demand from international markets.

Accumulate

CMP HKD0.78
(Closing price as of 14 February)
Target HKD 0.98 (+25.6%)

COMPANY DATA

O/S SHARES (MN) :	2,021.113200
MARKET CAP (HKD MN) :	1576.5
52 - WK HI/LO (HKD):	0.895/0.340

SHARE HOLDING PATTERN, %

Ho Cheuk Fai	72.56%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

USD mn	FY23	FY24	FY25E	FY26E
Revenue	3,082	2,916	3,133	3,322
Net profit	386	170	208	266
Reported EPS	0.19	0.08	0.10	0.13
P/E ratio, x	4.1	9.3	7.6	6.0
Dividend Yield, %	7.1%	7.1%	8.8%	11.5%

Source: Company reports, Phillip Securities Est.

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CAPEX for the period amounted to HK\$135 million, an 11% decrease from the previous year. Karrie maintained a healthy liquidity position, with cash and bank deposits totaling HK\$209 million and unused banking facilities of HK\$768 million. The gearing ratio increased to 45% from 39% due to higher bank borrowings.

The interim dividend of HK2.5 cents per share, representing a 67% yoy increase. The payout ratio remained at 50%, reflecting the company's commitment to balancing shareholder returns with future growth investments.

Strong demand in the artificial intelligence (AI) server market

The rapid development of AI is driving the expansion of data centers and cloud computing markets, leading to increased demand for high-performance servers. As a major supplier of server enclosures, Karrie International has benefited from this trend, with significant revenue growth in its metal and plastic business. The company offers comprehensive mechanical engineering solutions, including mold development, rapid prototyping, precision manufacturing, and automated production. Leveraging these technological advantages, Karrie has established a leading position in the market.

In terms of automated production, the company continues to optimize capacity allocation at its Dongguan and Thailand facilities. The Thailand plant has reached optimal production levels, securing certifications from multiple customers and experiencing stable order growth. This expansion not only mitigates geopolitical risks but also enhances supply chain stability. Additionally, Karrie closely monitors international market dynamics and adjusts its supply chain strategies flexibly to ensure sustained business growth.

Although the electronic manufacturing services (EMS) business faces challenges due to weakening market demand, the company is actively restructuring its product portfolio. By focusing on high-value-added data storage devices and emerging market applications, Karrie aims to enhance the profitability of this segment.

Investment Thesis

Driven by strong demand in the AI server market, Karrie International has delivered solid performance, with continuous improvements in gross margin and profitability. The company maintains a competitive edge in automated production and global supply chain management, particularly with the successful operation of its Thailand facility, which helps diversify geographical risks and flexibly meet the diverse needs of customers. However, challenges remain in the electronic manufacturing services (EMS) business, requiring ongoing product portfolio optimization to enhance segment profitability. Karrie's strategic positioning within the AI supply chain is well-defined, and we expect the company's earnings per share (EPS) for FY2025 and FY2026 to be HK\$0.10 and HK\$0.13, respectively. Our target price is set at HK\$0.98, corresponding to a 9.6x forward P/E ratio for FY2025, which is in line with the industry average. Our investment rating is "Buy".

Risk factors

1) geopolitical risks; 2) demand weakness in the EMS segment; 3) cost pressures and margin risks; and 4) uncertainties in overseas expansion.

Financial

Consolidated Statement of Profit or Loss

Mar Y/E, HKD mn	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,013	3,082	2,916	3,133	3,322
COGS	(2,865)	(2,745)	(2,546)	(2,720)	(2,848)
Gross Profit	1,148	337	370	413	473
Distribution and selling exp.	(44)	(31)	(23)	(28)	(30)
General & Admin exp.	(149)	(72)	(89)	(109)	(104)
Other income/gains	11	6	6	6	6
Net valuation losses on invest. properties	2	(30)	(36)	(10)	(8)
Operating Profit	968	211	228	273	337
Finance costs, net	2	(34)	(40)	(36)	(37)
Share of profits/(losses) of associates	1	15	(1)	0	0
Profit before tax	972	192	187	237	301
Income tax	(422)	(9)	(17)	(31)	(39)
Shareholders Net profit	549	386	170	208	266
Reported EPS, Diluted	0.27	0.19	0.08	0.10	0.13
DPS	0.085	0.055	0.055	0.069	0.090
Payout ratio	31%	29%	66%	67%	69%

Key Financial Data

Mar Y/E	FY22	FY23	FY24	FY25E	FY26E
Valuation Ratio					
P/S ratio, x	0.4	0.5	0.5	0.5	0.5
P/E ratio, x	2.9	4.1	9.3	7.6	6.0
Dividend Yield, %	10.9%	7.1%	7.1%	8.8%	11.5%

Per share data (HKD)

EPS	0.27	0.19	0.08	0.10	0.13
BVPS	0.84	0.46	0.49	0.55	0.62
DPS (HKD)	0.085	0.055	0.055	0.069	0.090

Growth & Margin

Growth					
Revenue Growth	25.7%	-23.2%	-5.4%	7.4%	6.0%
Gross Profit Growth	60.8%	-70.6%	9.8%	11.5%	14.6%
Operating Profit Growth	81.6%	-78.2%	8.3%	19.4%	23.7%
Net Profit Growth	50.3%	-29.7%	-56.1%	22.7%	27.7%
Margin					
Gross Profit Margin	28.6%	10.9%	12.7%	13.2%	14.2%
Operating Profit Margin	24.1%	6.8%	7.8%	8.7%	10.2%
Net Profit Margin	13.7%	12.5%	5.8%	6.6%	8.0%

Key Ratios

ROE	35.1%	29.3%	17.6%	19.8%	22.4%
ROA	12.6%	10.1%	6.9%	8.1%	9.6%

Consolidated Statement of Financial Position

Mar Y/E, HKD mn	FY22	FY23	FY24	FY25E	FY26E
Non Current Asset					
PPE	688	671	693	776	830
Others	621	482	367	367	367
Total Non Current Assets	1,310	1,152	1,060	1,143	1,196
Current Asset					
Inventory	778	633	512	638	624
Trade and other receivables	606	558	619	654	637
Bank balance and cash	442	159	149	242	275
Others	1,931	48	62	62	62
Total Current Assets	3,756	1,398	1,343	1,596	1,598
Total Assets	5,066	2,551	2,403	2,738	2,795
Non Current Liabilities					
Long-term debt	463	230	196	290	237
Other Non-current Liabilities	28	6	1	1	1
Total Non-current Liabilities	491	236	197	292	239
Current Liabilities					
Interest-bearing Borrowings	738	422	334	392	303
Trade payables	1,144	481	308	370	410
Others	996	474	571	573	578
Total Current Liabilities	2,879	1,378	1,213	1,336	1,291
Equity					
Shareholders' equity	1,697	937	993	1,111	1,265
Non-controlling interests	-	-	-	-	-
Total equity	1,697	937	993	1,111	1,265
Total Liabilities and Equity	5,066	2,551	2,403	2,738	2,795

Consolidated Statement of Cash Flow

Mar Y/E, HKD mn	FY22	FY23	FY24	FY25E	FY26E
CFO					
Profit before income tax	972	693	187	239	305
D&A add-back	99	104	91	94	105
Others	(515)	(179)	45	26	26
Net (inc)/dec working capital	(7)	2	(5)	(98)	71
Net cash flow from operating activities	549	621	318	261	507
CFI					
Purchase of PP&E	(254)	(188)	(89)	(177)	(159)
Others	18	(25)	(5)	2	4
Net cash flow from investing activities	(236)	(213)	(94)	(175)	(154)
CFF					
Dividends paid	(252)	(162)	(61)	(111)	(140)
Others	107	(907)	(172)	153	(143)
Net cash flows from financing activities	(145)	(1,069)	(232)	42	(283)
Net Change in Cash	167	(662)	(9)	128	70
Cash and CE at Y/E	840	159	149	277	347

Current Price as of: February 14

Source: PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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