Karrie International (1050 HK)

1HFY27: Solid Results On AI Server Growth; Targeting 30-40% Revenue Growth In FY27

Highlights

- Karrie's 1HFY27 revenue/net profit grew 40%/102% yoy to HK$2,254m/ HK$205m, representing 50%/45% of our full-year estimates respectively, thanks to ongoing shipments of AI-related server products, gross margin expansion and economies of scale.
- Management targets 30-40% revenue growth in FY27 with continued gross margin expansion in 2HFY27, and expects AI revenue to account for 50% of its server enclosure revenue in FY27, vs 12% in FY26 and 38% in 1HFY27.
- We raise our FY27-29 net profit estimates by 8%/14%/13% respectively but lower the target multiple due to weaker market sentiment. Maintain BUY with a lower target price of HK$2.29 (from HK$3.15), based on 10.0x FY27F PE, pegged to peers' average.

1HFY27 Results

Year to 31 Mar (HK$000)	1HFY27	yoy	hoh	1HFY26	2HFY26	FY26
Revenue	**2,253,690**	**40.1%**	**21.1%**	**1,608,745**	**1,860,822**	**3,469,567**
Metal and plastic business	1,438,663	45.0%	19.0%	992,009	1,209,328	2,201,337
Server enclosures	1,335,273	54.6%	21.0%	863,876	1,103,327	1,967,203
EV charger enclosures & other products	103,390	-19.3%	-2.5%	128,133	106,001	234,134
Electronic manufacturing services	815,027	32.2%	25.1%	616,736	651,494	1,268,230
Gross profit	**374,316**	**60.4%**	**11.3%**	**233,311**	**336,348**	**569,659**
Operating profit	**257,193**	**52.9%**	**23.3%**	**168,250**	**208,623**	**376,873**
Net profit	**205,127**	**101.6%**	**21.3%**	**101,726**	**169,157**	**270,883**
Margins (%)						
Gross margin	16.6	2.1ppt	-1.5ppt	14.5	18.1	16.4
Operating margin	11.4	1.0ppt	0.2ppt	10.5	11.2	10.9
Net margin	9.1	2.8ppt	0.0ppt	6.3	9.1	7.8

Source: Karrie International, UOB Kay Hian

Analysis

- **1HFY27 attributable net profit grew 102% yoy.** Karrie International's (Karrie) 1HFY27 revenue grew 40% yoy to HK$2,254m, representing 50% of our full-year estimate, primarily driven by a 55% yoy increase in server enclosure revenue (59% of total revenue). AI-related revenue contributed 38% of server enclosure revenue (22% of total revenue), up from 12% in FY26. Gross margin expanded 2.1ppt yoy to 16.6% on a higher AI contribution. Attributable net profit grew 102% yoy to HK$205m, representing 45% of our full-year estimate, while net margin expanded 2.8ppt yoy to 9.1%, driven by gross margin expansion, economies of scale at its Thailand production base and the absence of a disposal loss recorded in 1HFY26.

Key Financials

Year to 31 Mar (HK$000)	FY25	FY26	FY27F	FY28F	FY29F
Net turnover	3,231,329	3,469,567	4,741,701	5,479,900	5,614,625
Gross profit	472,076	569,659	866,620	1,054,565	1,081,787
EBITDA	433,148	488,176	775,315	948,751	972,002
Operating profit	323,378	376,873	620,714	770,377	790,611
Net profit	204,481	270,883	496,024	623,165	650,450
Net profit (adj.)	248,134	316,681	502,470	629,611	656,896
EPS (cents)	10.1	13.3	22.9	28.7	30.0
P/E (x)	14.0	10.6	6.2	4.9	4.7
P/BV (x)	2.7	2.0	1.7	1.3	1.1
EV/EBITDA (x)	7.7	6.8	4.2	3.2	3.0
DPS (cent)	5.5	6.0	6.9	8.6	9.0
Dividend yield (%)	3.9	4.2	4.8	6.1	6.3
Net margin (%)	6.3	7.8	10.5	11.4	11.6
Net debt to equity (%)	34.0	24.3	14.2	3.4	(1.7)
Interest cover (x)	7.9	11.3	13.5	15.5	18.7
ROE (%)	19.7	21.3	30.4	30.5	25.9
Consensus	-	-	465,500	603,500	741,000
UOBKH/Consensus	-	-	1.07	1.03	0.88

Source: Karrie International, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$1.42
Target Price	HK$2.29
Upside	61.3%
Previous TP	HK$3.15

Stock Data

Sector	Electronics Components
Bloomberg ticker	1050 HK
Shares issued (m)	2,088
Market cap (HK$m)	2,965
Market cap (US$m)	380
3-mth avg daily t'over (US$m)	0.7

Price Performance (%)

52-week high/low				HK$3.51/HK$1.38
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(17.9)	(25.8)	(51.9)	(43.7)	(41.3)

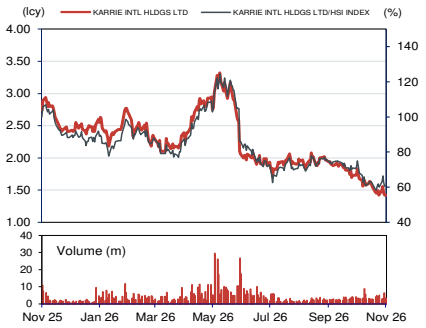
Major Shareholders (%)

Ho Cheuk Fai	73.4

Balance Sheet Metrics

FY27 NAV/Share (HK$)	0.83
FY27 Net Debt/Share (HK$)	0.12

Price Chart



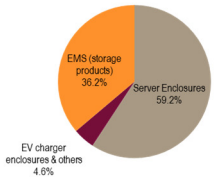
Source: Bloomberg

Company Description

Karrie International Holdings is a metal and plastics parts manufacturer which provides one-stop solution mainly to worldwide Fortune 500 customers. Its products include server chassis, slide rails, EV charging piles and storage products etc.

- **25% interim dividend payout.** Interim DPS was 2.5 HK cents (1HFY26: 1.5 HK cents), representing a 25% dividend payout ratio, vs 30% in 1HFY26.
- **Targeting 30-40% revenue growth in FY27 with continued gross margin expansion.** The company sees growth momentum continuing into 2HFY27 and targets 30-40% revenue growth in FY27. It expects continued gross margin expansion for the server enclosure segment in 2HFY27, supported by: a) operating leverage as capacity ramps up, and b) growing deliveries of higher-margin rack products. The company targets AI revenue to account for 50% of its server enclosure revenue in FY27, vs 38% in 1HFY27.
- **ASIC and Nvidia continued to lead growth.** For the ASIC customer, existing-generation enclosures are shipping steadily and rack deliveries are gradually increasing as capacity improves. Management expects the transition to the next-generation ASIC products to begin in 1Q27. For NVIDIA, switch trays have continued to ship steadily, while next-generation platform enclosures and racks have been delivered gradually. More components are in development, sample validation or mass-production preparation stages.
- **Positive developments in acquiring new customers.** Karrie is actively engaging with three US customers. It has completed qualification for two US customers and expects shipments to begin in early-27 and late-26 respectively. The other customer remains under evaluation. It expects gross margins on new customer orders to be similar to those of its existing AI server enclosure products.
- **Expanding rack production capacity in Mainland China and Thailand.** In Dongguan, a dedicated rack production line is in operation, with further automation planned, while new mould-making facilities are expected to commence operations gradually from end-26. In Thailand, the first phase of its new factory has topped out, with equipment and rack production lines to be added.
- **Capital allocation.** Management expects additional capex of HK$300m-400m for capacity expansion in Thailand and China in FY27-28, on top of HK$298m spent in 1HFY27 (Apr-Sep 26). The company aims to maintain its FY27 dividend payout ratio at a similar level to FY26 (45%). In view of its 40% net debt-to-equity ratio at end-Sep 26 (+16ppt hoh) and uncertainty over the interest rate environment, we remain conservative on its dividend payout and maintain our forecast of a 30% payout ratio for FY27-29.

1HFY27 Revenue Breakdown (By Segment)



Source: Karrie International, UOB Kay Hian

Earnings Revision

- We raise our FY27-29 revenue forecasts by 5%/8%/8% respectively to reflect a strong AI order pipeline and expanding rack production capacity. We raise our FY27-29 net profit estimates by 8%/14%/13% respectively to reflect higher revenue forecasts and operating leverage.
- We maintain our dividend payout ratio forecast at 30% for FY27-29.

Valuation/Recommendation

- **Maintain BUY with a lower target price of HK$2.29, based on 10.0x FY27F PE, pegged to peers' average.** The current price implies 6.2x FY27F PE, about 0.5SD below its historical mean of 7.6x in FY21-25.

Profit & loss

Year to 31 Mar (HK$000)	FY26	FY27F	FY28F	FY29F
Net turnover	**3,469,567**	**4,741,701**	**5,479,900**	**5,614,625**
Gross profit	569,659	866,620	1,054,565	1,081,787
EBITDA	488,176	775,315	948,751	972,002
Deprec. & amort.	(111,303)	(154,600)	(178,375)	(181,391)
EBIT	**376,873**	**620,714**	**770,377**	**790,611**
Total other non-op. income	(63,612)	(42,977)	(45,151)	(37,582)
Net interest income/(expense)	2,148	5,820	7,910	12,205
Pre-tax profit	**315,409**	**583,557**	**733,136**	**765,235**
Tax	(44,526)	(87,534)	(109,970)	(114,785)
Minorities	0	0	0	0
Net profit	**270,883**	**496,024**	**623,165**	**650,450**
Net profit (adj.)	316,681	502,470	629,611	656,896

Balance Sheet

Year to 31 Mar (HK$000)	FY26	FY27F	FY28F	FY29F
Fixed assets	907,901	1,153,310	1,224,941	1,193,554
Other LT assets	341,367	341,357	341,352	341,348
Cash/ST investment	338,130	437,909	616,769	1,010,606
Other current assets	1,639,918	1,515,607	1,848,566	1,992,720
Total assets	**3,227,316**	**3,448,184**	**4,031,628**	**4,538,228**
ST debt	785,646	663,941	769,589	815,144
Other current liabilities	683,027	683,027	683,027	683,027
LT debt	147,932	147,932	147,932	147,932
Other LT liabilities	148,830	148,830	148,830	148,830
Shareholders' equity	1,461,881	1,804,454	2,282,250	2,743,294
Minority interest	0	0	0	0
Total liabilities & equity	**3,227,316**	**3,448,184**	**4,031,628**	**4,538,228**

Cash flow

Year to 31 Mar (HK$000)	FY26	FY27F	FY28F	FY29F
Operating	**127,141**	**693,425**	**615,984**	**763,401**
Pre-tax profit	315,409	583,557	733,136	765,235
Tax	(44,526)	(87,534)	(109,970)	(114,785)
Deprec. & amort.	111,303	154,600	178,375	181,391
Working capital changes	(301,357)	178,703	169,654	(96,406)
Other operating cashflows	46,312	(135,902)	(355,210)	27,967
Investing	**(167,491)**	**(394,180)**	**(242,090)**	**(137,795)**
Capex (growth)	(185,700)	(400,000)	(250,000)	(150,000)
Others	18,209	5,820	7,910	12,205
Financing	**185,158**	**(199,466)**	**(195,034)**	**(231,770)**
Dividend payments	(90,960)	(153,451)	(145,369)	(189,405)
Issue of shares	152,017	0	0	0
Proceeds from borrowings	1,080,617	0	0	0
Loan repayment	(964,568)	0	0	0
Others/interest paid	8,052	(46,015)	(49,665)	(42,365)
Net cash inflow (outflow)	**144,808**	**99,779**	**178,860**	**393,836**
Beginning cash & cash equiv.	191,177	338,130	437,909	616,769
Changes due to forex impact	2,145	0	0	0
Ending cash & cash equiv.	**338,130**	**437,909**	**616,769**	**1,010,606**

Key Metric

Year to 31 Mar (%)	FY26	FY27F	FY28F	FY29F
Profitability				
Gross margin	16.4	18.3	19.2	19.3
Pre-tax margin	9.1	12.3	13.4	13.6
Net margin	7.8	10.5	11.4	11.6
ROA	9.4	14.9	15.5	14.3
ROE	21.3	30.4	30.5	25.9
Growth (% yoy)				
Turnover	7.4	36.7	15.6	2.5
EBITDA	12.7	58.8	22.4	2.5
Pre-tax profit	27.4	85.0	25.6	4.4
Net profit	32.5	83.1	25.6	4.4
Net profit (adj.)	27.6	58.7	25.3	4.3
EPS	31.9	71.4	25.6	4.4
Leverage				
Debt to total capital	21.5	20.1	17.2	21.2
Debt to equity	47.5	38.5	30.4	35.1
Net debt/(cash) to equity	24.3	14.2	3.4	(1.7)
Interest cover (x)	11.3	13.5	15.5	18.7

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