

# Tongda (698 HK)

## FY22 results below; GPM recovery on better product mix

Tongda's FY22 revenue/net profit declined 20%/40% YoY, below our/market expectations due to weak Android demand and macro headwinds, but GPM improved 2.5ppts YoY to 18.4% on better product mix. Looking ahead, while Android market remains challenging in 1H23E, mgmt. is positive on Apple products to drive ASP & GPM upside in 2H23E, and non-handset business will become major growth drivers in FY23-24E. We revised down our FY23-24E EPS by 19-23% to reflect lower sales, better margins and dilution impact of award shares in FY22. Our new TP of HK0.20 is based on higher 5.5x FY23E P/E (vs 5x prior), 20% below 1-sd of 8-year hist. avg. P/E of 7x, given earnings recovery and improving profitability in FY23-24E. Trading at 3.2x/2.9x FY23/24E P/E, we think the stock has attractive risk/reward. Maintain BUY.

- FY22 results below; GPM improvement on better product mix.** Tongda's FY22 revenue decline of 20% YoY missed our/consensus estimates on weak Android demand given macro headwinds. By segment: 1) handset casings/high-precision components dropped 27% YoY due to sluggish domestic smartphone demand; 2) household and sports goods were down 4% YoY on Europe and US customers' inventory correction; 3) network communications and others rose 12% YoY driven by NEV aluminium battery and auto interior component order wins. GPM jumped 2.5ppts YoY to 18.4% thanks to better product mix and high-margin Apple product driving share gain in 2H22. Net profit was HK\$137mn, down 39.8% YoY on loss of HK\$ 272mn in smart electrical appliances casings, which is now a discontinued operation for Tongda.
- Apple products to drive ASP/GPM upside; eyes on non-handset business.** Looking ahead, despite weak Android market in 1H23E, mgmt. expects that Apple's new iPhone order wins will drive ASP and GPM upside in 2H23E. Mgmt. remains positive on the household and sport goods biz spin-off, which will enhance profitability. In addition, mgmt. expects high growth in network communications/others segment driven by 1) easing chip shortage and high order visibility in FY24E, 2) strong demand after Wifi-7 launch in 2H23E and 3) new material biz for running shoes ramp-up.
- Attractive risk/reward; Maintain BUY.** We lowered FY23-24E revenue by 13-14% to reflect ongoing Android weakness but revised up FY23-24E GPM for higher Apple sales mix. Our new TP of HK\$0.2 is based on higher 5.5x FY23E (vs 5x prior) given earnings recovery and improving margins ahead. Trading at 3.2x/2.9x FY23/24E P/E, we think the stock has attractive risk/reward. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	9,433	7,559	7,845	8,642	9,386
YoY growth (%)	(3.3)	(19.9)	3.8	10.2	8.6
Net profit (HK\$ mn)	228.2	137.3	353.5	386.3	431.8
EPS (Reported) (HK\$ cents)	2.89	1.41	3.64	3.97	4.44
YoY growth (%)	(41.5)	(51.2)	157.5	9.3	11.8
Consensus EPS (HK\$ cents)	na	2.00	3.00	4.00	2.11
P/E (x)	13.8	9.8	3.2	2.9	2.6
P/B (x)	0.3	0.1	0.1	0.1	0.1
Yield (%)	0.0	0.0	6.7	6.7	6.7
ROE (%)	3.1	1.7	4.5	4.8	5.1
Net gearing (%)	26.8	23.4	40.5	19.5	24.6

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$0.20</b>
(Previous TP)	HK\$0.22)
<b>Up/Downside</b>	<b>72.5%</b>
<b>Current Price</b>	<b>HK\$0.12</b>

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### Stock Data

Mkt Cap (HK\$ mn)	1,127.4
Avg 3 mths t/o (HK\$ mn)	0.1
52w High/Low (HK\$)	0.17/0.07
Total Issued Shares (mn)	9719.0

Source: FactSet

### Shareholding Structure

Landmark Worldwide Holdings Ltd	24.4%
Wang Ya Nan	7.8%

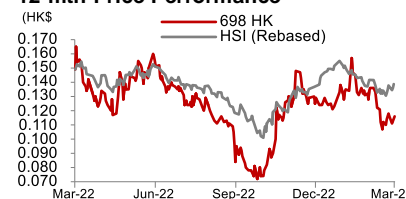
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-9.4%	-11.7%
3-mth	-10.1%	-12.4%
6-mth	22.1%	3.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## FY22 Results Review

Figure 1: Results review

RMB mn	FY19	FY20	FY21	FY22	YoY	CMBI		Consensus	
						FY22E	Diff%	FY22E	Diff%
Revenue	9,186	9,759	9,433	7,559	-20%	8,289	-9%	8,368	-10%
Gross profit	1,677	1,710	1,503	1,392	-7%	1,493	-7%	1,476	-6%
Operating profit	586	502	308	557	81%	313	78%	288	94%
Net profit	402	351	228	137	-40%	206	-34%	191	-28%
EPS (RMB)	0.06	0.05	0.03	0.01	-51%	0.03	-46%	0.02	-29%
Gross margin	18.3%	17.5%	15.9%	18.4%	2.5 ppt	18.0%	0.4 ppt	17.6%	0.8 ppt
Operating margin	6.4%	5.1%	3.3%	7.4%	4.1 ppt	3.8%	3.6 ppt	3.4%	3.9 ppt
Net margin	4.4%	3.6%	2.4%	1.8%	-0.6 ppt	2.5%	-0.7 ppt	2.3%	-0.5 ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Earnings Revision

### Adjusted FY23/24E EPS to reflect Android weakness

We revised down our FY23-24E EPS by 19-23% to reflect lower sales, better margins and dilution impact of award shares in FY22.

Figure 2: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,845	8,642	9,386	8,974	10,048	na	-13%	-14%	na
Gross profit	1,502	1,662	1,827	1,639	1,817	na	-8%	-9%	na
Operating profit	416	460	504	466	513	na	-11%	-10%	na
Net profit	354	386	432	354	406	na	0%	-5%	na
EPS (HK\$)	0.036	0.040	0.044	0.045	0.051	na	-19%	-23%	na
Gross margin	19.1%	19.2%	19.5%	18.3%	18.1%	na	0.9 ppt	1.1 ppt	na
Operating margin	5.3%	5.3%	5.4%	5.2%	5.1%	na	0.1 ppt	0.2 ppt	na
Net Margin	4.5%	4.5%	4.6%	3.9%	4.0%	na	0.6 ppt	0.4 ppt	na

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,845	8,642	9,386	8,995	9,959	na	-13%	-13%	na
Gross profit	1,502	1,662	1,827	1,665	1,845	na	-10%	-10%	na
Operating profit	416	460	504	454	507	na	-8%	-9%	na
Net profit	354	386	432	333	384	na	6%	1%	na
EPS (HK\$)	0.036	0.040	0.044	0.030	0.040	na	21%	-1%	na
Gross margin	19.1%	19.2%	19.5%	18.5%	18.5%	na	0.6 ppt	0.7 ppt	na
Operating margin	5.3%	5.3%	5.4%	5.0%	5.1%	na	0.3 ppt	0.2 ppt	na
Net Margin	4.5%	4.5%	4.6%	3.7%	3.9%	na	0.8 ppt	0.6 ppt	na

Source: Company data, CMBIGM estimates

**Figure 4: Revenue breakdown**

HK\$ mn	FY21	1H22	2H22	FY22	FY23E	FY24E	FY25E
<b>Handsets</b>	<b>7,281</b>	<b>2,859</b>	<b>2,742</b>	<b>5,335</b>	<b>5,517</b>	<b>5,927</b>	<b>6,212</b>
...YoY	-4%	-22%	-24%	-27%	3%	7%	5%
Metal	740	255	166	421	350	360	360
...YoY	-17%	-32%	-55%	-43%	-17%	3%	0%
Glastic	3,948	1,467	1,208	2,675	2,405	2,457	2,457
...YoY	-5%	-23%	-41%	-32%	-10%	2%	0%
Glass	222	-	-	-	-	-	-
...YoY	-56%	0%	0%	0%	0%	0%	0%
Apple	2,333	1,137	1,359	2,496	2,712	2,810	2,995
...YoY	16%	-12%	31%	7%	9%	4%	7%
<b>Electrical appliances</b>	<b>536</b>	<b>228</b>	<b>150</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
...YoY	-22%	-29%	-30%	-	-	-	-
<b>Household goods</b>	<b>1,138</b>	<b>674</b>	<b>622</b>	<b>1,093</b>	<b>1,555</b>	<b>1,866</b>	<b>2,239</b>
...YoY	41%	15%	13%	-4%	42%	20%	20%
<b>Network communications</b>	<b>1,014</b>	<b>506</b>	<b>626</b>	<b>1,131</b>	<b>772</b>	<b>849</b>	<b>934</b>
...YoY	44%	-4%	29%	12%	-32%	10%	10%
<b>Total</b>	<b>9,969</b>	<b>4,267</b>	<b>4,140</b>	<b>7,559</b>	<b>7,845</b>	<b>8,642</b>	<b>9,386</b>
...YoY	2%	-17%	-15%	-24%	4%	10%	9%

Source: Company data, CMBIGM estimates

**Figure 5: P&L forecast**

HK\$ mn	FY21	1H22	2H22	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>9,433</b>	<b>4,267</b>	<b>4,140</b>	<b>7,559</b>	<b>7,845</b>	<b>8,642</b>	<b>9,386</b>
...YoY	-3.3%	-16.6%	-14.7%	-19.9%	3.8%	10.2%	8.6%
Cost of sales	-7,930	-3,495	-2,672	(6,167)	(6,343)	(6,981)	(7,559)
<b>Gross profit</b>	<b>1,503</b>	<b>772</b>	<b>620</b>	<b>1,392</b>	<b>1,502</b>	<b>1,662</b>	<b>1,827</b>
GPM (%)	15.9%	18.1%	15.0%	18.4%	19.1%	19.2%	19.5%
...YoY	-12.1%	0.4%	-15.5%	-7.4%	7.9%	10.6%	10.0%
Selling Exp	(57)	(69)	16	(53)	(63)	(69)	(94)
...% of rev	-0.6%	-1.6%	0.4%	-0.7%	-0.8%	-0.8%	-1.0%
R&D	0	(241)	241	(515)	(416)	(458)	(497)
...% of rev	0.0%	-5.7%	5.8%	-6.8%	-5.3%	-5.3%	-5.3%
<b>Operating profit</b>	<b>308</b>	<b>107</b>	<b>450</b>	<b>557</b>	<b>416</b>	<b>460</b>	<b>504</b>
OPM (%)	3.3%	2.5%	10.9%	7.4%	5.3%	5.3%	5.4%
...YoY	-38.7%	33.7%	97.4%	80.8%	-25.3%	10.6%	9.4%
<b>Net profit</b>	<b>228</b>	<b>33</b>	<b>104</b>	<b>137</b>	<b>354</b>	<b>386</b>	<b>432</b>
NPM (%)	2.4%	0.8%	2.5%	1.8%	4.5%	4.5%	4.6%
...YoY	-35.1%	-38.8%	-40.2%	-39.8%	157.5%	9.3%	11.8%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP of HK\$0.20

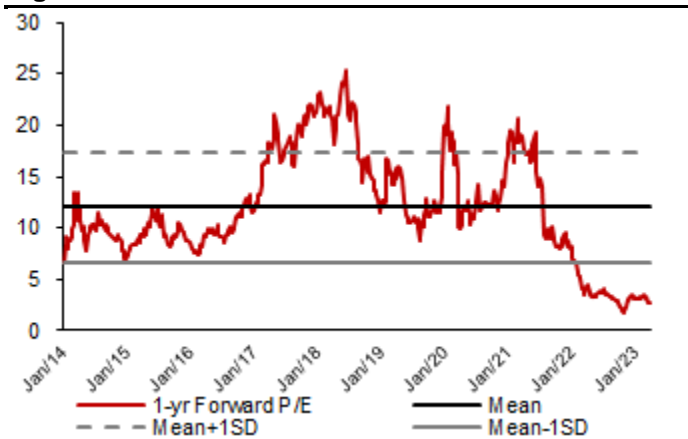
Our new TP of HK\$0.20 is based on higher 5.5x FY23E P/E (vs 5x prior), 20% below 1-sd of 8-year hist. avg. P/E of 7x, given earnings recovery and improving profitability in FY23-24E. We think current valuation of 3.2x/2.9x FY22E/23E P/E is attractive (well below 1-sd below hist. P/E) as we expect earnings recovery in 2023 and new business ramp-up in FY23-24E.

Figure 6: Peers valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>HK-listed</b>												
Tongda	698 HK	BUY	144	0.12	0.20	72%	3.2	2.9	0.1	0.1	2.9	4.7
BYDE	285 HK	HOLD	6,501	22.65	20.3	-10%	15.7	12.7	1.6	1.4	10.2	11.4
Ju Teng	3336 HK	NR	200	1.31	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	858	0.85	NA	NA	21.7	10.8	0.5	0.5	2.2	4.4
<b>Average</b>							<b>13.5</b>	<b>8.8</b>	<b>0.7</b>	<b>0.7</b>	<b>5.1</b>	<b>6.8</b>
<b>China-listed</b>												
Everwin	300115 CH	NR	2,439	13.95	NA	NA	23.8	14.9	2.3	2.4	7.3	20.3
Janus	300083 CH	NR	2,100	8.61	NA	NA	13.9	10.8	3.1	2.6	24.0	20.8
<b>Average</b>							<b>18.8</b>	<b>12.8</b>	<b>2.7</b>	<b>2.5</b>	<b>15.6</b>	<b>20.5</b>
<b>Overseas-listed</b>												
Foxconn	2354 TT	NR	2,582	55.60	NA	NA	12.7	11.9	0.6	0.5	5.3	5.7
Catcher	2474 TT	NR	4,446	189.50	NA	NA	21.0	17.3	0.8	0.8	4.0	4.5
<b>Average</b>							<b>16.8</b>	<b>14.6</b>	<b>0.7</b>	<b>0.7</b>	<b>4.7</b>	<b>5.1</b>

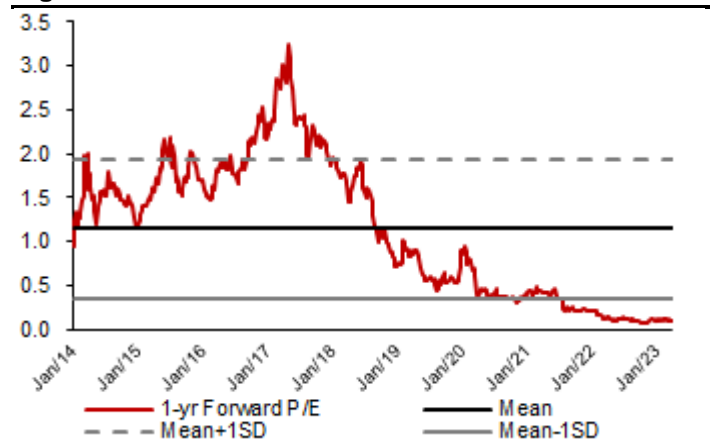
Source: Bloomberg, CMBIGM estimates

Figure 7: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 8: 12M forward P/B band



Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Revenue	9,759	9,433	7,559	7,845	8,642	9,386
Cost of goods sold	(8,048)	(7,930)	(6,167)	(6,343)	(6,981)	(7,559)
<b>Gross profit</b>	<b>1,710</b>	<b>1,503</b>	<b>1,392</b>	<b>1,502</b>	<b>1,662</b>	<b>1,827</b>
<b>Operating expenses</b>	<b>(1,186)</b>	<b>(1,163)</b>	<b>(1,175)</b>	<b>(1,020)</b>	<b>(1,132)</b>	<b>(1,248)</b>
Selling expense	(136)	(57)	(53)	(63)	(69)	(94)
Admin expense	(1,050)	(1,106)	(1,122)	(957)	(1,063)	(1,154)
SG&A expense	0	0	0	0	0	0
Others	(22)	(32)	(62)	(66)	(69)	(75)
<b>Operating profit</b>	<b>502</b>	<b>308</b>	<b>557</b>	<b>416</b>	<b>460</b>	<b>504</b>
<b>EBITDA</b>	<b>1,121</b>	<b>375</b>	<b>1,514</b>	<b>1,428</b>	<b>1,527</b>	<b>1,625</b>
Other income/expense	102	69	71	120	113	121
Others	(175)	(74)	(138)	(138)	(138)	(138)
<b>Pre-tax profit</b>	<b>430</b>	<b>303</b>	<b>491</b>	<b>398</b>	<b>436</b>	<b>487</b>
Income tax	(70)	(51)	(67)	(38)	(42)	(47)
Minority interest	8	15	14	7	8	8
<b>Net profit</b>	<b>351</b>	<b>228</b>	<b>137</b>	<b>354</b>	<b>386</b>	<b>432</b>
<b>Adjusted net profit</b>	<b>351</b>	<b>228</b>	<b>137</b>	<b>354</b>	<b>386</b>	<b>432</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
<b>Current assets</b>	<b>7,658</b>	<b>9,354</b>	<b>7,993</b>	<b>8,702</b>	<b>10,315</b>	<b>11,111</b>
Cash & equivalents	1,353	1,366	1,195	686	2,425	2,079
Account receivables	2,993	3,317	2,159	3,088	2,693	3,585
Inventories	2,204	3,177	2,351	2,642	2,910	3,161
Prepayment	486	523	653	653	653	653
Other current assets	622	971	1,634	1,634	1,634	1,634
<b>Non-current assets</b>	<b>6,642</b>	<b>7,402</b>	<b>6,236</b>	<b>6,526</b>	<b>6,060</b>	<b>5,539</b>
PP&E	5,824	6,658	5,598	5,888	5,422	4,901
Other non-current assets	818	744	638	638	638	638
<b>Total assets</b>	<b>14,300</b>	<b>16,755</b>	<b>14,229</b>	<b>15,229</b>	<b>16,375</b>	<b>16,650</b>
<b>Current liabilities</b>	<b>6,212</b>	<b>7,720</b>	<b>5,444</b>	<b>6,137</b>	<b>6,941</b>	<b>6,823</b>
Short-term borrowings	2,228	2,931	1,928	2,822	2,935	3,065
Account payables	3,207	3,772	2,531	2,329	3,020	2,772
Other current liabilities	777	1,016	986	986	986	986
<b>Non-current liabilities</b>	<b>1,422</b>	<b>814</b>	<b>1,154</b>	<b>1,176</b>	<b>1,200</b>	<b>1,229</b>
Long-term borrowings	1,300	639	1,051	1,073	1,097	1,126
Other non-current liabilities	123	175	103	103	103	103
<b>Total liabilities</b>	<b>7,634</b>	<b>8,534</b>	<b>6,598</b>	<b>7,313</b>	<b>8,142</b>	<b>8,052</b>
Share capital	65	97	97	97	97	97
Other reserves	6,553	8,063	7,466	7,743	8,054	8,410
<b>Total shareholders equity</b>	<b>6,666</b>	<b>8,221</b>	<b>7,631</b>	<b>7,915</b>	<b>8,233</b>	<b>8,598</b>
Minority interest	49	61	68	75	82	91
<b>Total equity and liabilities</b>	<b>14,300</b>	<b>16,755</b>	<b>14,229</b>	<b>15,228</b>	<b>16,375</b>	<b>16,650</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	430	303	491	398	436	487
Depreciation & amortization	619	67	957	1,012	1,067	1,121
Change in working capital	253	(731)	279	(1,420)	817	(1,390)
Others	96	769	(85)	(39)	(51)	(78)
<b>Net cash from operations</b>	<b>1,397</b>	<b>408</b>	<b>1,642</b>	<b>(48)</b>	<b>2,268</b>	<b>140</b>
<b>Investing</b>						
Capital expenditure	(1,176)	(900)	(600)	(600)	(600)	(600)
Others	318	(320)	18	16	9	32
<b>Net cash from investing</b>	<b>(858)</b>	<b>(1,220)</b>	<b>(582)</b>	<b>(584)</b>	<b>(591)</b>	<b>(568)</b>
<b>Financing</b>						
Dividend paid	(3)	0	0	(76)	(76)	(76)
Net borrowings	(223)	43	(256)	124	138	158
Proceeds from share issues	0	752	0	0	0	0
Others	(104)	(98)	0	0	0	0
<b>Net cash from financing</b>	<b>(331)</b>	<b>696</b>	<b>(256)</b>	<b>48</b>	<b>62</b>	<b>82</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,078	1,353	1,366	1,271	686	2,425
Exchange difference	66	129	(898)	0	0	0
<b>Cash at the end of the year</b>	<b>1,353</b>	<b>1,366</b>	<b>1,271</b>	<b>686</b>	<b>2,425</b>	<b>2,079</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	6.2%	(3.3%)	(19.9%)	3.8%	10.2%	8.6%
Gross profit	2.0%	(12.1%)	(7.4%)	7.9%	10.6%	10.0%
Operating profit	(14.3%)	(38.7%)	80.8%	(25.3%)	10.6%	9.4%
EBITDA	6.4%	(66.6%)	303.9%	(5.7%)	6.9%	6.4%
Net profit	(12.5%)	(35.1%)	(39.8%)	157.5%	9.3%	11.8%
Adj. net profit	(12.5%)	(35.1%)	(39.8%)	157.5%	9.3%	11.8%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	17.5%	15.9%	18.4%	19.1%	19.2%	19.5%
Operating margin	5.1%	3.3%	7.4%	5.3%	5.3%	5.4%
EBITDA margin	11.5%	4.0%	20.0%	18.2%	17.7%	17.3%
Adj. net profit margin	3.6%	2.4%	1.8%	4.5%	4.5%	4.6%
Return on equity (ROE)	5.6%	3.1%	1.7%	4.5%	4.8%	5.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.3	0.3	0.2	0.4	0.2	0.2
Current ratio (x)	1.2	1.2	1.5	1.4	1.5	1.6
Receivable turnover days	111.1	122.1	122.1	122.1	122.1	122.1
Inventory turnover days	100.9	123.8	163.6	143.7	145.1	146.6
Payable turnover days	139.6	160.6	139.8	139.8	139.8	139.8
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	10.0	13.8	9.8	3.2	2.9	2.6
P/B	0.5	0.3	0.1	0.1	0.1	0.1
Div yield (%)	0.1	0.0	0.0	6.7	6.7	6.7
EV	2,224.0	2,266.0	1,852.1	3,284.8	1,691.5	2,204.6
EV/Sales	0.2	0.2	0.2	0.4	0.2	0.2
EV/EBITDA	2.0	6.0	1.2	2.3	1.1	1.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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