

Tongda Group (698 HK)

1H20 worse than expected; Wait for better visibility

Tongda announced 1H20 profit warning, stating net profit to decline 85-95% YoY, mainly due to 1) GPM pressure on intense competition and slower product upgrades given COVID-19 impact, and 2) net exchange loss in 1H20 (vs FX gain in 1H19). While Tongda's 1H20 challenges are largely in-line with our concerns in our downgrade note on 19 March, we expect ASP/margin pressure will persist into 2H20E due to inferior casing product mix and weaker demand on automotive /electrical appliances/household & sport goods. We lowered FY20-22E EPS by 71%/19%/10% to reflect 1H20 miss, slower upgrade and weaker consumer demand. Maintain HOLD with new TP of HK\$0.50 based on rollover 7x FY21E P/E (vs 7x FY20E prev.).

- **1H20 profit warning due to margin pressure and FX loss.** Tongda stated 1H20 net profit will decrease 85-95% YoY, below our estimates of 55% YoY decline, mainly due to weaker GPM and FX loss. We estimate 1H20 revenue /NP to decline 8%/93% YoY, while GPM dropped to 15.7% (vs 21.1% in 1H19) given higher mix of lower-margin glastic casings (80% of 70mn 1H shipment) and limited upgrade in iPhone components.
- **2H20E outlook: casing and iPhone under pressure in near term.** Despite rapid glastic casings adoption on 5G smartphones (esp. Samsung, Vivo), we believe 2H20E casing shipment will decline 5% YoY to 80mn (vs 84mn in 2H19) and blended ASP will remain weak with 22% YoY decline (vs -24% YoY in 1H20) given higher mix of lower-ASP glastic product. In addition, while we expect iPhone revenue to remain flattish in FY20E, product launch delays will drag GPM to 19% in FY20E (vs 22% in FY19). Overall, we estimate 2H20E revenue to decline 17% YoY (vs -8% in 1H20E), and top 4 clients will remain Samsung, Apple, Xiaomi and Vivo in 2020.
- **Our FY20-22E EPS are 29-73% below consensus; Maintain HOLD.** We cut FY20-22E EPS by 10-71% to factor in 1H20 miss, ASP/margin pressure and weak demand due to COVID-19. We rollover to FY21E target P/E and revised down TP to HK\$0.50 (from HK\$0.53) based on 7x FY21E P/E (1-sd below hist. avg.) given weak earnings visibility and demand uncertainties. Current valuation at 7.7x FY21E P/E is fair in our view, and we recommend to stay on the sidelines. In longer term, we believe Tongda will benefit glastic adoption, 5G iPhone recovery and IoT opportunities in 2021, but it is too early to bottom fish in the meantime.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	8,899	9,186	7,977	9,387	10,243
YoY growth (%)	3.9	3.2	(13.2)	17.7	9.1
Net income (HK\$ mn)	543	402	142	461	567
EPS (HK\$)	0.088	0.062	0.022	0.071	0.09
YoY growth (%)	(48.2)	(29.3)	(64.7)	225.1	23.0
Consensus EPS (HK\$)	NA	NA	0.08	0.11	0.12
P/E (x)	6.3	8.9	25.1	7.7	6.3
P/B (x)	0.5	0.5	0.5	0.5	0.5
Yield (%)	1.5	0.1	1.1	1.3	1.4
ROE (%)	9	6.7	2.3	7.1	8.1
Net gearing (%)	57	45	49	49	48

Source: Company data, CMBIS

HOLD (Maintain)

Target Price **HK\$0.50**
 (Previous TP **HK\$0.53**)
 Upside **-9%**
 Current Price **HK\$0.55**

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	3,564
Avg 3 mths t/o (HK\$ mn)	14.37
52w High/Low (HK\$)	1.08/ 0.39
Total Issued Shares (mn)	6,480

Source: Bloomberg

Shareholding Structure

Landmark Worldwide	24.44%
Ya Nan Wang	11.68%
Mondrian Investment	4.73%

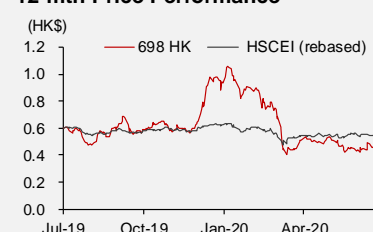
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	26.4%	17.9%
3-mth	7.8%	0.4%
6-mth	-40.9%	-36.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports:

1. Tongda (698 HK) - Not immune from CONV-19 impact; D/G to HOLD - 19 Mar 2020
2. Tongda (698 HK) - Buy ahead of strong Apple and 5G recovery - 24 Dec 2019
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Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7,977	9,387	10,243	9,754	10,215	10,847	-18%	-8%	-6%
Gross profit	1,303	1,747	2,010	1,857	2,004	2,169	-30%	-13%	-7%
Operating profit	334	631	762	676	759	847	-51%	-17%	-10%
Net profit	142	461	567	488	566	632	-71%	-19%	-10%
EPS (HK\$)	0.02	0.07	0.09	0.08	0.09	0.10	-71%	-19%	-10%
Gross margin	16.3%	18.6%	19.2%	19.0%	19.6%	20.1%	-2.7 ppt	-1 ppt	-1 ppt
Operating margin	4.2%	6.7%	7.3%	6.9%	7.4%	8.3%	-2.7 ppt	-0.7 ppt	-1 ppt
Net Margin	1.8%	4.9%	5.1%	5.0%	5.5%	6.0%	-3.2 ppt	-0.6 ppt	-0.9 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7,977	9,387	10,243	9,547	10,474	11,234	-16%	-10%	-9%
Gross profit	1,303	1,747	2,010	1,747	1,943	2,134	-25%	-10%	-6%
Operating profit	334	631	762	748	1,199	961	-55%	-47%	-21%
Net profit	142	461	567	484	595	668	-71%	-22%	-15%
EPS (HK\$)	0.02	0.07	0.09	0.08	0.11	0.12	-73%	-33%	-29%
Gross margin	16.3%	18.6%	19.2%	18.3%	18.6%	19.0%	-2 ppt	0.1 ppt	0.2 ppt
Operating margin	4.2%	6.7%	7.3%	7.8%	11.4%	8.6%	-3.6 ppt	-4.7 ppt	-1.2 ppt
Net Margin	1.8%	4.9%	5.1%	5.1%	5.7%	5.9%	-3.3 ppt	-0.8 ppt	-0.9 ppt

Source: Company data, CMBIS estimates

Figure 3: Revenue breakdown

HK\$ mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Handsets	6,621	2,856	4,264	7,120	2,759	3,499	6,258	7,411	8,090
...YoY	12%	-1%	14%	8%	-3%	-18%	-12%	18%	9%
Metal	2,786	562	1,018	1,579	356	225	580	351	351
...YoY	-42%	-62%	-23%	-43%	-37%	-78%	-63%	-40%	0%
Glastic	2,145	1,193	2,122	3,315	1,386	2,022	3,408	4,137	4,306
...YoY	538%	14%	94%	55%	16%	-5%	3%	21%	4%
Glass	207	328	164	491	232	211	442	443	409
...YoY	14702%	180%	82%	137%	-29%	29%	-10%	0%	-8%
Apple	849	774	961	1,734	786	1,042	1,828	2,479	3,024
...YoY	92%	202%	-22%	17%	2%	8%	5%	36%	22%
Electrical appliances	849	343	285	627	257	233	490	539	556
...YoY	-2%	-32%	-17%	-26%	-25%	-18%	-22%	10%	3%
Notebook computers	83	-	-	-	-	-	-	-	-
...YoY	-88%	-	-	-	-	-	-	-	-
Household goods	607	328	320	648	262	256	519	596	656
...YoY	21%	-8%	28%	7%	-20%	-20%	-20%	15%	10%
Network communications	739	382	408	791	305	405	710	841	942
...YoY	5%	23%	-5%	7%	-20%	-1%	-10%	18%	12%
Total	8,899	3,909	5,277	9,186	3,584	4,393	7,977	9,387	10,243
...YoY	4%	-6%	11%	3%	-8%	-17%	-13%	18%	9%

Source: Company data, CMBIS estimates

Figure 4: P&L forecast

HK\$ mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	3,909	5,277	9,186	3,584	4,393	7,977	9,387	10,243	3,909
...YoY	-5.8%	11.1%	3.2%	-8.3%	-16.7%	-13.2%	17.7%	9.1%	-5.8%
Cost of sales	(3,083)	(4,426)	(7,509)	(3,023)	(3,651)	(6,674)	(7,641)	(8,233)	(3,083)
Gross profit	826	851	1,677	561	742	1,303	1,747	2,010	826
GPM (%)	21.1%	16.1%	18.3%	15.7%	16.9%	16.3%	18.6%	19.6%	21.1%
...YoY	-13.9%	1.9%	-6.5%	-32.1%	-12.8%	-22.3%	34.0%	15.1%	-13.9%
 Selling Exp	 (59)	 (75)	 (133)	 (54)	 (62)	 (115)	 (130)	 (141)	 (59)
...% of rev	-1.5%	-1.4%	-1.5%	-1.5%	-1.4%	-1.4%	-1.4%	-1.4%	-1.5%
R&D	(171)	(241)	(412)	(161)	(198)	(359)	(432)	(471)	(171)
...% of rev	-4.4%	-4.6%	-4.5%	-4.5%	-4.5%	-4.5%	-4.6%	-4.6%	-4.4%
Operating profit	415	172	586	145	188	334	631	762	415
OPM (%)	10.6%	3.3%	6.4%	4.1%	4.3%	4.2%	6.7%	7.4%	10.6%
...YoY	-23.5%	-11.0%	-20.2%	-64.9%	9.8%	-43.1%	89.1%	20.7%	-23.5%
 Net profit	 316	 86	 402	 24	 118	 142	 461	 567	 316
NPM (%)	8.1%	1.6%	4.4%	0.7%	2.7%	1.8%	4.9%	5.5%	8.1%
...YoY	-24.6%	-30.8%	-26.0%	-92.5%	38.0%	-64.7%	225.1%	23.0%	-24.6%

Source: Company data, CMBIS estimates

Valuation

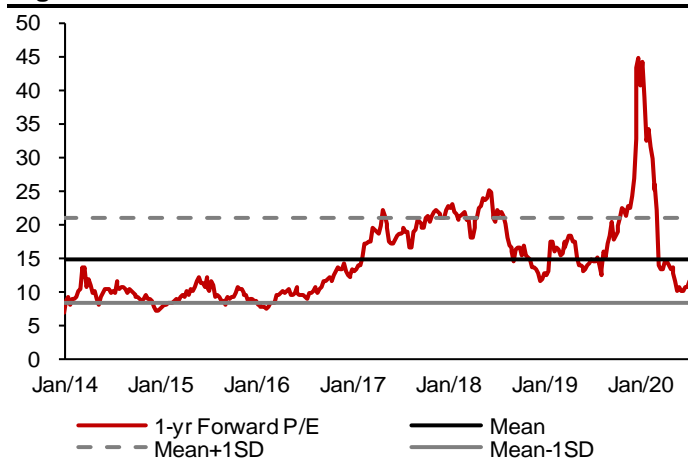
Maintain Hold and trimmed TP to HK\$0.50

We cut our FY20/21/22E EPS by 71%/19%/10% and lowered our 12m TP to HK\$0.50, based on rollover 7x FY21E P/E, on par with 1-sd below historical average P/E. Given lower earnings visibility and demand uncertainties, we recommend to wait for better entry point before new products start to ramp.

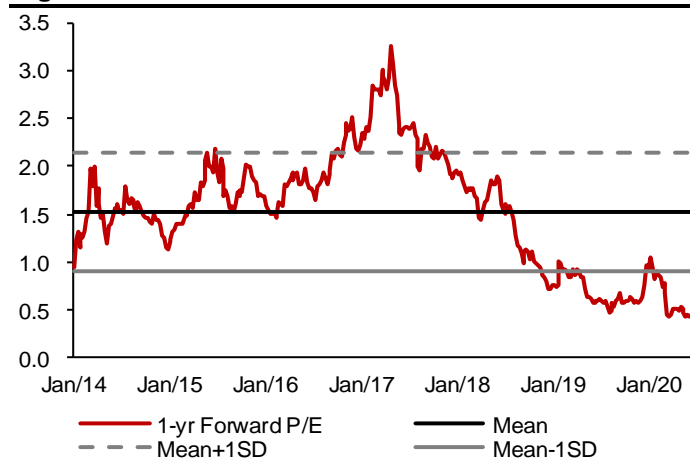
Figure 5: Peers valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HK-listed												
Tongda	698 HK	Hold	460	0.55	0.5	-9%	25.0	7.7	0.5	0.5	2.2	7.1
BYDE	285 HK	Buy	6,424	22.10	22.2	0%	27.2	20.4	2.4	2.2	9.0	10.9
Ju Teng	3336 HK	NR	445	2.96	NA	NA	9.4	10.6	0.5	0.5	5.5	4.8
FIH	2038 HK	NR	984	0.93	NA	NA	17.1	13.3	0.5	0.5	4.9	3.6
Average							19.7	13.0	1.0	0.9	5.4	6.6
China-listed												
Everwin	300115 CH	NR	3,480	26.77	NA	NA	42.6	29.9	5.0	4.4	11.1	13.1
Janu	300083 CH	NR	1,454	7.11	NA	NA	24.5	14.8	3.2	2.6	13.0	17.8
Average							33.5	22.3	4.1	3.5	12.0	15.4
Overseas-listed												
Foxconn	2354 TT	NR	2,733	57.10	NA	NA	11.4	10.5	0.7	0.7	5.9	6.3
Casetek	5264 TT	NR	1,020	71.70	NA	NA	-	23.5	1.0	1.0	0.1	4.9
Catcher	2474 TT	NR	5,892	226.00	NA	NA	10.2	9.2	1.1	1.0	11.1	11.9
Average							10.8	14.4	0.9	0.9	5.7	7.7

Source: Bloomberg, CMBIS estimates

Figure 6: 12M forward P/E band

Source: Company data, CMBIS estimates

Figure 7: 12M forward P/B band

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	8,899	9,186	7,977	9,387	10,243
COGS	(7,105)	(7,509)	(6,674)	(7,641)	(8,233)
Gross profit	1,794	1,677	1,303	1,747	2,010
Selling and marketing	(129)	(133)	(115)	(130)	(141)
Administrative	(875)	(946)	(798)	(948)	(1,035)
R&D					
Other operating exp.	(55)	(11)	(56)	(37)	(73)
Operating profit	735	586	334	631	762
Financial cost	(174)	(207)	(169)	(172)	(184)
Other income/(loss)	115	105	5	94	102
Pre-tax profit	676	485	170	554	681
Tax	(113)	(84)	(26)	(83)	(102)
Minority interest	20	(1)	3	9	12
Net profit	543	402	142	461	567

Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	676	485	170	554	681
Depreciation	390	761	497	547	598
Change in working capital	(19)	775	(18)	(244)	(435)
Others	(9)	(507)	(40)	(94)	(114)
Net cash from operating	1,038	1,514	609	763	729
Capex	(911)	(1,000)	(900)	(900)	(900)
Other	(631)	327	14	11	12
Net cash from investing	(1,542)	(673)	(886)	(889)	(888)
Net borrowings	947	(402)	66	267	331
Dividend paid	(35)	(3)	(39)	(45)	(51)
Share issue/(repurchase)	-				
Other	(356)	(85)	0	0	0
Net cash from financing	556	(490)	27	221	280
Net change in cash	52	351	(249)	96	122
Cash at beginning of the year	792	768	1,078	828	924
Exchange difference	(76)	(42)	0	0	0
Cash at the end of the year	768	1,078	828	924	1,046

Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	7,720	7,464	6,290	8,290	7,626
Cash & equivalents	768	1,078	828	924	1,046
Account receivables	3,115	2,946	2,317	3,877	2,882
Inventories	2,529	2,245	1,949	2,294	2,503
Prepayments	547	545	545	545	545
Other current assets	761	650	650	650	650
Non-current assets	5,922	6,109	6,512	6,865	7,167
PPE	4,850	5,089	5,492	5,844	6,147
Prepaid land lease	262				
Investment property	68				
Long-term deposits	626	531	531	531	531
Other non-current assets	116	489	489	489	489
Total assets	13,642	13,573	12,803	15,155	14,793
Current liabilities	5,888	6,344	5,448	7,296	6,307
ST borrowings	2,455	2,633	2,679	2,866	3,099
Account payables	2,626	2,948	2,006	3,666	2,445
Other current liabilities	807	763	763	763	763
Non-current liabilities	1,817	1,247	1,266	1,346	1,444
LT borrowings	1,697	1,117	1,137	1,217	1,315
Other non-current liabilities	120	129	129	129	129
Total liabilities	7,705	7,591	6,715	8,642	7,752
Share capital	65	65	65	65	65
Reserves	5,898	5,881	5,984	6,400	6,917
Minority interest	(26)	36	39	48	60
Shareholders' equity	5,937	5,982	6,088	6,513	7,041
Total equity and liabilities	13,642	13,573	12,803	15,155	14,793

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Handsets	74	78	78	79	79
Electrical Appliances	10	7	6	6	5
Notebook Computers	1	0	0	0	0
Ironware parts	7	7	7	6	6
Network commu.	8	9	9	9	9
Growth (%)					
Revenue	4	3	(13)	18	9
Gross profit	(20)	(7)	(22)	34	15
Operating profit	(41)	(20)	(43)	89	21
Net profit	(46)	(26)	(65)	225	23
Profit & loss ratio (%)					
Gross margin	20	18.3	16.3	18.6	19.6
Operating margin	8	6.4	4.2	6.7	7.4
Net profit margin	6	4.4	1.8	4.9	5.5
Balance sheet ratio					
Net debt/total equity (x)	0.6	0.4	0.5	0.5	0.5
Current ratio (x)	1.3	1.2	1.2	1.1	1.2
Receivable turnover days	144	120	120	120	120
Inventory turnover days	134	116	115	101	106
Payable turnover days	138	135	135	135	135
Profitability (%)					
ROE	9.1	6.7	2.3	7.1	8.1
ROA	4.0	3.0	1.1	3.0	3.8
Per share data (HK\$)					
EPS	0.09	0.062	0.022	0.071	0.088
DPS	0.01	0.00	0.01	0.01	0.01

Source: Company data, CMBIS estimates

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