

Tongda (698 HK)

Non-metal casing upgrade and Smart-tech to drive earnings recovery in FY25E

Tongda's 1H24 revenue/GPM beat market expectations mainly on Android recovery, Apple and Smart-tech business growth while net profit declined 34% YoY due to the disposal of Apple biz. We spoke to mgmt. post 1H24 results, and expect earnings recovery on track in FY25/26E. Looking forward, despite intensified competition in smartphone casing business in 2H24E, mgmt. is positive on spec upgrade of non-metal glastic casing, higher-margin Smart-tech business and better operating efficiency after business disposal in FY25-26E. Our new TP of HK\$ 0.122 is based on the same 6.0x FY25E P/E. Trading at 3.7x FY25E P/E, we think the stock offers attractive risk/reward. Maintain BUY.

- **1H24 revenue/GPM beat on Android recovery, higher-margin Apple/Smart-tech business growth.** Tongda's 1H24 revenue grew 0.3% YoY to HK\$2.98bn, above our/consensus estimate by 11%/2%, due to Android recovery and smart electrical appliances/motors growth. By segment, consumer electronics structural components' sales dropped 2% YoY due to business disposal, while household and sports goods climbed 15% YoY. GPM improved 1.1ppts YoY to 20.9%, which is above our/consensus estimates by 3.5ppts/4.0ppts thanks to higher-margin Apple/Smart-tech businesses. Net profit declined 34% YoY due to higher R&D expense for the disposed Apple business.
- **Spec upgrade on non-metal glastic casing and solid growth of Smart-tech.** Despite intense competition in smartphone casing business in 2H24E, mgmt. is positive on earnings recovery in 2025, and shared guidance on: 1) revenue growth of 5-10% YoY thanks to tablet metal casing, non-metal smartphone casing upgrade and Smart-tech growth (20-25% YoY) with sales contribution of 20% (vs. 17% in 1H24); 2) Smart electrical appliances and network communication sales to remain flattish YoY; 3) GPM to reach 16-18% driven by upgrade of non-metal glastic casing and higher-margin Smart-tech segment.
- **Maintain BUY on earnings recovery in FY25-26E.** We lower FY24-26E EPS by 5-81% to reflect 1H results and market competition in 2H24E, while we expect revenue growth to resume in FY25-26E, backed by glastic casing/Smart-tech businesses, lower interest expense and improving operating efficiency after Apple biz disposal. Our new TP of HK\$0.122 is based on the same 6.0x FY25E P/E. Trading at 3.7x FY25E P/E, we think the stock is attractive. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	7,972	6,522	5,751	6,212	6,782
YoY growth (%)	(15.5)	(18.2)	(11.8)	8.0	9.2
Net profit (HK\$ mn)	137.3	(1,229.7)	29.0	197.4	264.6
YoY growth (%)	(39.8)	na	na	581.4	34.0
EPS (Reported) (HK\$ cents)	1.41	(12.64)	0.30	2.03	2.72
YoY growth (%)	(51.2)	na	na	581.3	34.0
Consensus EPS (HK\$ cents)	0.00	0.00	2.30	2.90	3.30
P/E (x)	5.4	ns	25.5	3.7	2.8
P/B (x)	0.1	0.1	0.1	0.1	0.1
Yield (%)	0.0	0.0	0.3	2.1	2.9
ROE (%)	1.7	(16.8)	0.4	2.8	3.6
Net gearing (%)	23.4	25.5	(11.6)	(18.8)	(30.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$0.12
(Previous TP)	HK\$0.13)
Up/Downside	60.2%
Current Price	HK\$0.08

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Stock Data

Mkt Cap (HK\$ mn)	738.6
Avg 3 mths t/o (HK\$ mn)	1.0
52w High/Low (HK\$)	0.16/0.07
Total Issued Shares (mn)	9719.0

Source: FactSet

Shareholding Structure

Landmark Worldwide Holdings Ltd	24.4%
Wang Ya Nan	7.8%

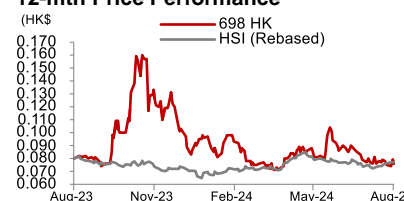
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.3%	-4.3%
3-mth	-10.6%	-7.1%
6-mth	-18.3%	-24.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- 1) 1H24E preview: eyes on Android recovery and smart tech growth – 6 Aug 2024 ([link](#))
- 2) Healthier balance sheet and Android momentum to drive profitability recovery – 16 Apr 2024 ([link](#))
- 3) Positive on earnings recovery in FY24-25E after disposal of Apple business – 2 Jan 2024 ([link](#))

1H24 Results Review

Figure 1: Results review

HK\$ mn	2H22	1H23	2H23	1H24	YoY	CMBI		Consensus	
						1H24E	Diff%	1H24E	Diff%
Revenue	3,933	2,832	3,691	2,986	5%	2,550	11%	2,926.00	2%
Gross profit	457	574	(228)	625	9%	427	35%	494	26%
Operating profit	195	75	(1,169)	67	-11%	95	-21%	na	na
Net profit	104	19	(1,249)	13	-34%	35	-45%	78	-84%
EPS (HK\$)	0.003	0.002	(0.128)	0.001	-34%	0.004	-6%	na	na
Gross margin	11.6%	20.3%	-6.2%	20.9%	0.7 ppt	16.7%	3.5 ppt	16.9%	4 ppt
Operating margin	4.9%	2.7%	-31.7%	2.3%	-0.4 ppt	3.7%	-1.1 ppt	na	na
Net margin	2.6%	0.7%	-33.8%	0.4%	-0.3 ppt	1.4%	-0.7 ppt	2.7%	-2.2 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Earnings Revision

Figure 2: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,751	6,212	6,782	5,603	5,819	6,547	3%	7%	4%
Gross profit	791	1,059	1,017	839	849	982	-6%	25%	4%
Operating profit	(21)	121	183	150	120	177	-114%	1%	4%
Net profit	29	197	265	155	214	278	-81%	-8%	-5%
EPS (HK\$ cents)	0.003	0.020	0.027	0.016	0.02	0.03	-81%	-8%	-5%
Gross margin	13.7%	17.0%	15.0%	15.0%	14.6%	15.0%	-1.2 ppt	2.5 ppt	0 ppt
Operating margin	-0.4%	1.9%	2.7%	2.7%	2.1%	2.7%	-3 ppt	-0.1 ppt	0 ppt
Net Margin	0.5%	3.2%	3.9%	2.8%	3.7%	4.2%	-2.3 ppt	-0.5 ppt	-0.3 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,751	6,212	6,782	6,009	6,487	6,848	-4%	-4%	-1%
Gross profit	791	1,059	1,017	973	1,077	1,164	-19%	-2%	-13%
Operating profit	(21)	121	183	-	-	-	-	-	-
Net profit	29	197	265	227	278	325	-87%	-29%	-19%
EPS (HK\$ cents)	0.003	0.020	0.027	0.023	0.029	0.033	-87%	-30%	-18%
Gross margin	13.7%	17.0%	15.0%	16.2%	16.6%	17.0%	-2.5 ppt	0.4 ppt	-2 ppt
Operating margin	-0.4%	1.9%	2.7%	-	-	-	-	-	-
Net Margin	0.5%	3.2%	3.9%	3.8%	4.3%	4.7%	-3.3 ppt	-1.1 ppt	-0.8 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

HK\$ mn	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Consumer electronics	5,637	2,479	2,233	4,711	4,912	5,222
... YoY	-18%	4%	-31%	-16%	4%	6%
Handsets	4,865	1,780	1,595	3,375	3,540	3,623
... YoY	-15%	-15%	-42%	-31%	5%	2%
Metal	350	260	65	325	500	488
... YoY	-17%	86%	-69%	-7%	54%	-3%
Non-metal	2,365	1,020	1,530	2,550	3,040	3,135
... YoY	-16%	3%	11%	8%	19%	3%
Apple	-	-	-	-	-	-
... YoY	0%	0%	0%	0%	0%	0%
Electrical appliances	2,100	500	-	500	-	-
... YoY	-16%	-48%	0%	-76%	0%	0%
Network comm.	772	369	338	706	742	816
... YoY	-32%	27%	-30%	-9%	5%	10%
Household goods	885	508	532	1,040	1,300	1,560
... YoY	-19%	15%	20%	17%	25%	20%
Total	6,522	2,986	2,765	5,751	6,212	6,782
... YoY	-18%	5%	-25%	-12%	8%	9%

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

HK\$ mn	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Revenue	6,522	2,986	2,765	5,751	6,212	6,782
... YoY	-18.2%	5.4%	-25.1%	-11.8%	8.0%	9.2%
Cost of sales	-6,176	-2,361	-2,599	-4,961	-5,153	-5,765
Gross profit	346	625	166	791	1,059	1,017
GPM (%)	5.3%	20.9%	6.0%	13.7%	17.0%	15.0%
... YoY	-71.9%	8.9%	-172.7%	128.7%	33.9%	-3.9%
Selling Exp	(82)	(32)	(3)	(35)	(65)	(41)
... % of rev	-1.3%	-1.1%	-0.1%	-0.6%	-1.1%	-0.6%
R&D	(628)	0	(111)	(111)	(376)	(380)
... % of rev	-9.6%	0.0%	-4.0%	-1.9%	-6.0%	-5.6%
Operating profit	(1094)	67	(88)	(21)	121	183
OPM (%)	-16.8%	2.3%	-3.2%	-0.4%	1.9%	2.7%
... YoY	-462.5%	-10.7%	-92.4%	-98.1%	-668.7%	51.7%
Net profit	-1,230	13	16	29	197	265
NPM (%)	-18.9%	0.4%	0.6%	0.5%	3.2%	3.9%
... YoY	-995.7%	-33.7%	-101.3%	-102.4%	581.4%	34.0%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$0.122

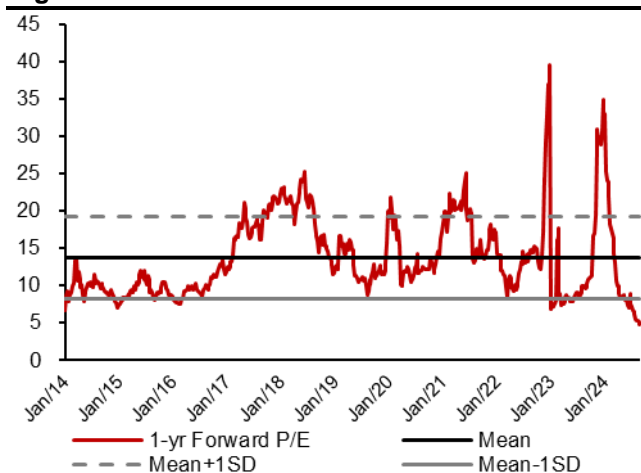
Our new TP of HK\$0.122 is based on the same 6.0x FY25E P/E, which is below peer average but we deem reasonable for Tongda as its earnings recovery starts in FY25E. We think the stock's current valuation of 4.8x/3.5x FY24/25E P/E is fairly attractive (well below 1SD below hist. P/E), as we expect earnings recovery and new business ramp-up in FY24-25E.

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 (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
HK-listed												
Tongda	698 HK	Buy	95	0.08	0.12	61%	25.2	3.7	0.1	0.1	0.4	2.8
BYDE	285 HK	Buy	7,989	27.65	45.3	64%	11.0	8.1	3.0	2.4	27.0	29.2
Ju Teng	3336 HK	NR	166	1.08	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	829	0.82	NA	NA	-	-	-	-	-	-
Average							18.1	5.9	1.5	1.2	13.7	16.0
China-listed												
Everwin	300115 CH	NR	2,169	11.39	NA	NA	19.8	16.5	2.1	1.9	11.1	11.6
Janus	300083 CH	NR	1,424	6.07	NA	NA	22.4	17.3	1.9	1.7	8.5	10.1
Average							21.1	16.9	2.0	1.8	9.8	10.8
Overseas-listed												
Foxconn	2354 TT	NR	3,035	68.50	NA	NA	23.8	23.3	0.6	0.6	3.8	3.8
Catcher	2474 TT	NR	5,051	237.00	NA	NA	11.9	15.0	1.0	1.0	8.4	6.4
Average							17.9	19.1	0.8	0.8	6.1	5.1

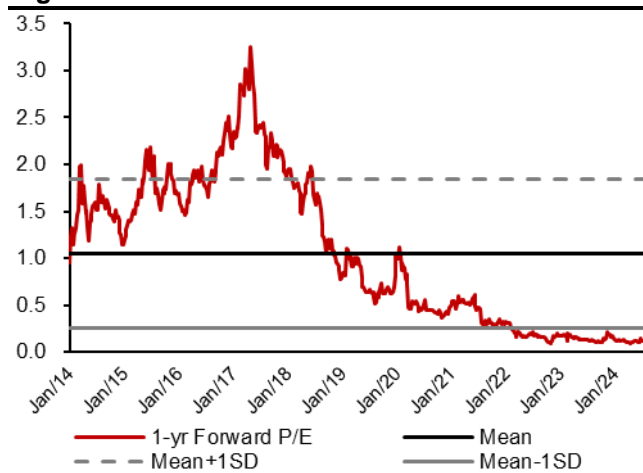
Source: Bloomberg, CMBIGM estimates

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	9,433	7,972	6,522	5,751	6,212	6,782
Cost of goods sold	(7,930)	(6,742)	(6,176)	(4,961)	(5,153)	(5,765)
Gross profit	1,503	1,230	346	791	1,059	1,017
Operating expenses	(1,163)	(1,233)	(1,292)	(939)	(876)	(793)
Selling expense	(57)	(66)	(82)	(35)	(65)	(41)
Admin expense	(1,106)	(1,167)	(1,211)	(904)	(810)	(753)
SG&A expense	0	0	0	0	0	0
Others	(32)	(97)	(147)	(19)	(62)	(41)
Operating profit	308	302	(1,094)	(21)	121	183
EBITDA	375	1,962	552	957	953	862
Other income/expense	69	82	138	154	112	123
Others	(74)	(165)	(197)	(40)	40	40
Pre-tax profit	303	219	(1,153)	93	273	346
Income tax	(51)	(67)	(52)	(24)	(41)	(35)
Minority interest	15	14	25	40	35	47
Net profit	228	137	(1,230)	29	197	265
Adjusted net profit	228	137	(1,230)	29	197	265

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	9,354	7,993	8,034	8,730	9,926	10,881
Cash & equivalents	1,366	1,195	1,160	2,237	2,826	3,832
Account receivables	3,317	2,159	1,907	1,677	2,194	2,032
Inventories	3,177	2,351	1,267	1,117	1,207	1,318
Prepayment	523	653	623	623	623	623
Other current assets	971	1,634	3,076	3,076	3,076	3,076
Non-current assets	7,402	6,236	5,269	2,941	2,309	1,830
PP&E	6,658	5,598	4,552	2,224	1,592	1,113
Other non-current assets	744	638	717	717	717	717
Total assets	16,755	14,229	13,303	11,671	12,235	12,711
Current liabilities	7,720	5,444	5,073	3,929	4,261	4,426
Short-term borrowings	2,931	1,928	1,878	902	930	967
Account payables	3,772	2,531	1,837	1,669	1,973	2,101
Other current liabilities	1,016	986	1,358	1,358	1,358	1,358
Non-current liabilities	814	1,154	1,226	673	688	709
Long-term borrowings	639	1,051	1,065	512	527	548
Other non-current liabilities	175	103	161	161	161	161
Total liabilities	8,534	6,598	6,299	4,602	4,949	5,135
Share capital	97	97	97	97	97	97
Other reserves	8,063	7,466	6,585	6,612	6,794	7,037
Total shareholders equity	8,221	7,631	7,003	7,070	7,286	7,576
Minority interest	61	68	321	360	395	442
Total equity and liabilities	16,755	14,229	13,303	11,671	12,235	12,711

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	303	219	(1,153)	93	273	346
Depreciation & amortization	67	1,660	1,645	978	832	679
Change in working capital	(731)	279	643	212	(303)	179
Others	769	(1,415)	(1,128)	(39)	(70)	(71)
Net cash from operations	408	743	7	1,244	732	1,133
Investing						
Capital expenditure	(900)	(600)	(600)	(150)	(200)	(200)
Others	(320)	251	225	1,515	29	37
Net cash from investing	(1,220)	(349)	(375)	1,365	(171)	(163)
Financing						
Dividend paid	0	0	0	(2)	(16)	(21)
Net borrowings	43	(591)	(35)	(1,530)	43	58
Proceeds from share issues	752	0	0	0	0	0
Others	(98)	277	710	0	0	0
Net cash from financing	696	(314)	675	(1,532)	27	37
Net change in cash						
Cash at the beginning of the year	1,353	1,366	1,195	1,160	2,237	2,826
Exchange difference	129	(251)	(341)	0	0	0
Cash at the end of the year	1,366	1,195	1,160	2,237	2,826	3,832
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	(3.3%)	(15.5%)	(18.2%)	(11.8%)	8.0%	9.2%
Gross profit	(12.1%)	(18.2%)	(71.9%)	128.7%	33.9%	(3.9%)
Operating profit	(38.7%)	(2.0%)	na	na	na	51.7%
EBITDA	(66.6%)	423.2%	(71.9%)	73.5%	(0.5%)	(9.5%)
Net profit	(35.1%)	(39.8%)	na	na	581.4%	34.0%
Adj. net profit	(35.1%)	(39.8%)	na	na	581.4%	34.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.9%	15.4%	5.3%	13.7%	17.0%	15.0%
Operating margin	3.3%	3.8%	(16.8%)	(0.4%)	1.9%	2.7%
EBITDA margin	4.0%	24.6%	8.5%	16.6%	15.3%	12.7%
Adj. net profit margin	2.4%	1.7%	(18.9%)	0.5%	3.2%	3.9%
Return on equity (ROE)	3.1%	1.7%	(16.8%)	0.4%	2.8%	3.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.3	0.2	0.3	(0.1)	(0.2)	(0.3)
Current ratio (x)	1.2	1.5	1.6	2.2	2.3	2.5
Receivable turnover days	122.1	125.4	113.8	113.7	113.7	113.7
Inventory turnover days	123.8	149.6	106.9	87.7	82.3	79.9
Payable turnover days	160.6	170.6	129.1	129.0	129.0	129.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	2.6	5.4	ns	25.5	3.7	2.8
P/B	0.1	0.1	0.1	0.1	0.1	0.1
Div yield (%)	0.0	0.0	0.0	0.3	2.1	2.9

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

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