

Tongda Group (698 HK)

Riding on Apple/Xiaomi share gain; Upgrade to BUY

We upgrade Tongda to BUY (from Hold) with TP HK\$0.56 on same 7x FY21E P/E, after we raised FY20-22E EPS estimates by 11-75% to reflect recent iPhone 12 strength and Xiaomi/Samsung's share gain in 2H20E. Being Xiaomi/Samsung's largest glastic casing supplier (30%/15% of sales) and Apple's major waterproof component vendor (20% of sales), we estimate Tongda's net profit will rebound with 235%/62% YoY in 2H20E/2021E. We recommend investors to accumulate on recent weakness given upcoming earnings turnaround and its distressed valuation at 5.1x FY21E P/E (1-sd below 5-yr hist. avg. P/E). Major catalysts include stronger 4Q20, iPhone 12 upside and Apple order wins.

- Expect 4Q20E sales to grow 18% YoY on iPhone 12 delay.** Tongda reported 9M20 sales of -0.5% YoY (vs 2% in 1H20) as handset business (casing & Apple) was largely flattish at 1% YoY given iPhone launch delay. Following a slower 3Q20, we expect Tongda's 4Q20E sales to accelerate with 18% YoY (vs -4%/+5% in 3Q/2Q20), driven by strong iPhone 12 demand and Xiaomi/Samsung restocking due to Huawei weakness.
- Benefiting from iPhone 12 and Xiaomi/Samsung's share gain.** Given 5G smartphone adoption and Xiaomi/Samsung's share expansion, we revised up Tongda's FY20E casing shipment to 160mn (from 150mn) with flattish 2H20E blended ASP at RMB38 (vs RMB39 in 2H19). In addition, we are more positive on iPhone 12 demand in 2H20E, and we believe Tongda will benefit from recent iPhone order upward revision. We raised Tongda's Apple revenue by 14% to RMB1.2bn with GPM of 22% in FY20E (vs 19% prev). Overall, we estimate 2H20E revenue/NP to grow 7%/235% YoY (vs +2/-91% YoY in 1H20).
- Upgrade to BUY on Xiaomi/Samsung/Apple strength; Lift TP to HK\$0.56 (36% upside).** We raised FY20-22E EPS by 11-75% to factor in higher GPM, recent iPhone 12 strength and Xiaomi/Samsung's share gain in 2H20E. Our new TP of HK0.56 is based on higher EPS and same 7x FY21E P/E. We think current valuation of 5.1x FY21E P/E is extremely attractive (1-sd below 5-year hist. P/E) as we expect Tongda's earnings growth to turn around in FY21E. Looking ahead, we believe Tongda will benefit from glastic adoption, 5G iPhone upcycle and expansion into Apple's wearables (AR/VR/TWS) in 2021E. We recommend to accumulate ahead of further order wins from Apple.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	8,899	9,186	9,609	10,267	10,796
YoY growth (%)	3.9	3.2	4.6	6.9	5.2
Net income (HK\$ mn)	543	402	318	517	568
EPS (HK\$)	0.088	0.062	0.049	0.080	0.09
YoY growth (%)	(48.2)	(29.3)	(20.8)	62.4	10.0
Consensus EPS (HK\$)	NA	0.062	0.051	0.076	0.088
P/E (x)	4.7	6.6	8.3	5.1	4.7
P/B (x)	0.4	0.4	0.4	0.4	0.4
Yield (%)	2.0	1.2	1.5	1.7	1.9
ROE (%)	9	6.7	5.1	7.7	7.8
Net gearing (%)	57	45	53	45	45

Source: Company data, Bloomberg, CMBIS

BUY (Up)

Target Price	HK\$0.56
(Previous TP)	HK\$0.50)
Upside	36%
Current Price	HK\$0.41

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	2,657
Avg 3 mths t/o (HK\$ mn)	4.73
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%
Dimensional Fund	2.24%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.4%	-8.5%
3-mth	-8.9%	-9.6%
6-mth	-17.2%	-18.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports:

- Tongda (698 HK) - Weak 1H20 in-line; Margin risk remains an overhang – 24 Aug 2020
- Tongda (698 HK) - 1H20 worse than expected; Wait for better visibility - 13 Jul 2020
- Tongda (698 HK) - Not immune from CONV-19 impact; D/G to HOLD – 19 Mar 2020

Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	9,609	10,267	10,796	9,053	9,907	10,195	6%	4%	6%
Gross profit	1,634	1,893	2,026	1,467	1,776	1,888	11%	7%	7%
Operating profit	439	684	754	286	610	687	54%	12%	10%
Net profit	318	517	568	182	454	512	75%	14%	11%
EPS (HK\$)	0.05	0.08	0.09	0.03	0.07	0.08	75%	14%	11%
Gross margin	17.0%	18.4%	18.8%	16.2%	17.9%	18.2%	0.8 ppt	0.5 ppt	0.6 ppt
Operating margin	4.6%	6.7%	7.0%	3.2%	6.2%	6.4%	1.4 ppt	0.5 ppt	0.6 ppt
Net Margin	3.3%	5.0%	5.2%	2.0%	4.6%	4.6%	1.3 ppt	0.4 ppt	0.6 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	9,609	10,267	10,796	9,111	10,015	10,916	5%	3%	-1%
Gross profit	1,634	1,893	2,026	1,521	1,773	1,906	7%	7%	6%
Operating profit	439	684	754	480	707	717	-9%	-3%	5%
Net profit	318	517	568	299	456	534	6%	13%	6%
EPS (HK\$)	0.05	0.08	0.09	0.05	0.08	0.09	-3%	5%	0%
Gross margin	17.0%	18.4%	18.8%	16.7%	17.7%	17.5%	0.3 ppt	0.7 ppt	1.3 ppt
Operating margin	4.6%	6.7%	7.0%	5.3%	7.1%	6.6%	-0.7 ppt	-0.4 ppt	0.5 ppt
Net Margin	3.3%	5.0%	5.2%	3.3%	4.6%	4.9%	0 ppt	0.5 ppt	0.3 ppt

Source: Company data, CMBIS estimates

Figure 3: Revenue breakdown

HK\$ mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
Handsets	6,621	2,856	4,264	7,120	3,149	4,580	7,730	8,099	8,336
...YoY	12%	-1%	14%	8%	10%	7%	9%	5%	3%
Metal	2,786	562	963	1,525	390	764	1,154	954	857
...YoY	-42%	-62%	-27%	-45%	-31%	-21%	-24%	-17%	-10%
Glastic	2,145	1,193	2,122	3,315	1,772	2,371	4,143	4,167	3,895
...YoY	538%	14%	94%	55%	48%	12%	25%	1%	-7%
Glass	207	328	218	546	225	283	508	443	511
...YoY	14702%	180%	142%	163%	-31%	30%	-7%	-13%	15%
Apple	849	774	961	1,734	763	1,161	1,924	2,534	3,073
...YoY	92%	202%	-22%	17%	-1%	21%	11%	32%	21%
Electrical appliances	849	343	285	627	268	256	524	577	606
...YoY	-2%	-32%	-17%	-26%	-22%	-10%	-16%	10%	5%
Notebook computers	83	-	-	-	-	-	-	-	-
...YoY	-88%	-	-	-	-	-	-	-	-
Household goods	607	328	320	648	290	295	585	672	773
...YoY	21%	-8%	28%	7%	-12%	-8%	-10%	15%	15%
Network communications	739	382	408	791	283	487	770	919	1,081
...YoY	5%	23%	-5%	7%	-26%	19%	-3%	19%	18%
Total	8,899	3,909	5,277	9,186	3,990	5,618	9,609	10,267	10,796
...YoY	4%	-6%	11%	3%	2%	6%	5%	7%	5%

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	3,990	5,618	9,609	10,267	10,796
...YoY	-5.8%	11.1%	3.2%	-8.3%	2.1%	6.5%	4.6%	6.9%	5.2%
Cost of sales	(3,083)	(4,426)	(7,509)	(3,023)	(3,383)	(4,592)	(7,975)	(8,374)	(8,771)
Gross profit	826	851	1,677	561	607	1,027	1,634	1,893	2,026
GPM (%)	21.1%	16.1%	18.3%	15.7%	15.2%	18.3%	17.0%	18.4%	18.8%
...YoY	-13.9%	1.9%	-6.5%	-32.1%	-26.5%	20.6%	-2.6%	15.9%	7.0%
Selling Exp	(59)	(75)	(133)	(54)	(62)	(79)	(141)	(143)	(150)
...% of rev	-1.5%	-1.4%	-1.5%	-1.5%	-1.6%	-1.4%	-1.5%	-1.4%	-1.4%
R&D	(171)	(241)	(412)	(161)	(175)	(253)	(428)	(462)	(486)
...% of rev	-4.4%	-4.6%	-4.5%	-4.5%	-4.4%	-4.5%	-4.5%	-4.5%	-4.5%
Operating profit	415	172	586	145	64	375	439	684	754
OPM (%)	10.6%	3.3%	6.4%	4.1%	1.6%	6.7%	4.6%	6.7%	7.0%
...YoY	-23.5%	-11.0%	-20.2%	-64.9%	-84.6%	118.4%	-25.1%	55.8%	10.2%
Net profit	316	86	402	24	29	288	318	517	568
NPM (%)	8.1%	1.6%	4.4%	0.7%	0.7%	5.1%	3.3%	5.0%	5.3%
...YoY	-24.6%	-30.8%	-26.0%	-92.5%	-90.8%	235.3%	-20.8%	62.4%	10.0%

Source: Company data, CMBIS estimates

Valuation

Upgrade to BUY with TP of HK\$0.56 (36% upside)

We raised FY20-22E EPS by 11-75% to factor in higher GPM, recent iPhone 12 strength and Xiaomi/ Samsung's share gain in 2H20E. Our new TP of HK0.56 is based on higher EPS and same 7x FY21E P/E. We think current valuation of 5.1x FY21E P/E is extremely attractive (1-sd below 5-year hist. P/E) as we expect Tongda's earnings growth to turn around in FY21E.

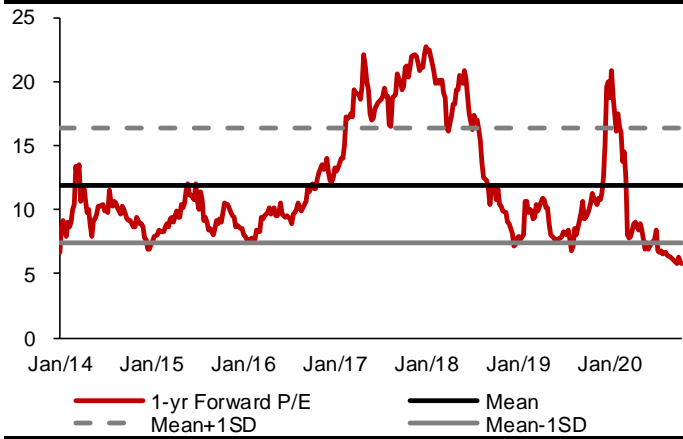
In longer term, we believe Tongda will benefit from glastic adoption, 5G iPhone upcycle and Apple's wearables (AR/VR/TWS) in 2021E. Upcoming catalysts include strong 4Q20 sales, iPhone 12 upside and Xiaomi product launch.

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	Buy	343	0.41	0.6	37%	8.4	5.1	0.4	0.4	4.7	7.7
BYDE	285 HK	Buy	11,077	38.10	50.4	32%	13.1	12.3	3.5	2.8	26.3	22.4
Ju Teng	3336 HK	NR	361	2.40	NA	NA	7.6	8.4	0.4	0.4	5.6	4.9
FIH	2038 HK	NR	967	0.92	NA	NA	-	13.2	-	-	(5.6)	3.3
Average							9.7	9.8	1.4	1.2	7.8	9.6
China-listed												
Everwin	300115 CH	NR	3,373	24.86	NA	NA	41.6	28.6	4.7	4.2	11.3	14.6
Janus	300083 CH	NR	1,785	8.38	NA	NA	35.4	20.4	3.9	3.3	10.8	15.9
Average							38.5	24.5	4.3	3.7	11.1	15.2
Overseas-listed												
Foxconn	2354 TT	NR	2,535	51.20	NA	NA	10.0	9.5	0.6	0.5	6.5	6.3
Casetek	5264 TT	NR	1,273	86.50	NA	NA	426.1	24.8	1.2	1.1	1.4	4.9
Catcher	2474 TT	NR	4,892	183.50	NA	NA	8.9	9.9	0.9	0.8	11.9	9.4
Average							148.3	14.7	0.9	0.8	6.6	6.8

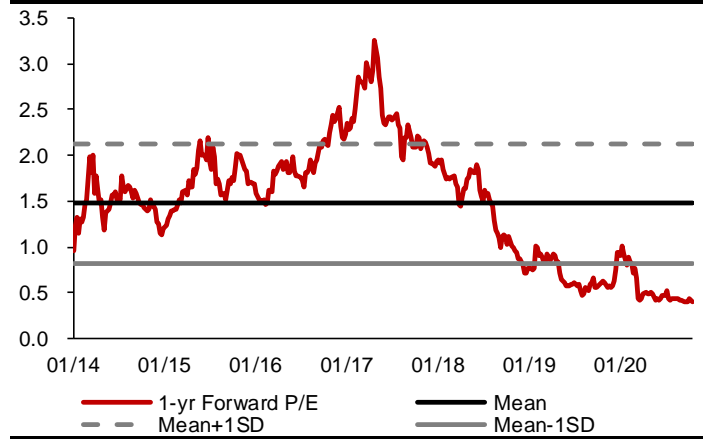
Source: Bloomberg, CMBIS estimates

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	9,609	10,267	10,796
COGS	(7,105)	(7,509)	(7,975)	(8,374)	(8,771)
Gross profit	1,794	1,677	1,634	1,893	2,026
Selling and marketing	(129)	(133)	(141)	(143)	(150)
Administrative	(875)	(946)	(1,002)	(1,027)	(1,080)
R&D					
Other operating exp.	(55)	(11)	(52)	(40)	(42)
Operating profit	735	586	439	684	754
Financial cost	(174)	(207)	(169)	(177)	(190)
Other income/(loss)	115	105	114	113	119
Pre-tax profit	676	485	384	620	682
Tax	(113)	(84)	(59)	(93)	(102)
Minority interest	20	(1)	8	11	12
Net profit	543	402	318	517	568

Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	676	485	384	620	682
Depreciation	390	761	497	547	598
Change in working capital	(19)	775	(528)	125	(470)
Others	(9)	(507)	(73)	(101)	(118)
Net cash from operating	1,038	1,514	281	1,192	692
Capex	(911)	(1,000)	(900)	(900)	(900)
Other	(631)	327	14	8	15
Net cash from investing	(1,542)	(673)	(886)	(892)	(885)
Net borrowings	947	(402)	180	302	332
Dividend paid	(35)	(32)	(39)	(45)	(51)
Share issue/(repurchase)	-				
Other	(356)	(56)	0	0	0
Net cash from financing	556	(490)	141	257	281
Net change in cash	52	351	(464)	557	89
Cash at beginning of the year	792	768	1,078	613	1,170
Exchange difference	(76)	(42)	0	0	0
Cash at the end of the year	768	1,078	613	1,170	1,259

Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	7,720	7,464	7,551	8,255	8,836
Cash & equivalents	768	1,078	613	1,170	1,259
Account receivables	3,115	2,946	3,394	3,380	3,743
Inventories	2,529	2,245	2,348	2,509	2,638
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	0	0	0	0
Investment property	68	0	0	0	0
Long-term deposits	626	531	531	531	531
Other non-current assets	116	489	489	489	489
Total assets	13,642	13,573	14,063	15,120	16,003
Current liabilities	5,888	6,344	6,494	6,979	7,233
ST borrowings	2,455	2,633	2,759	2,971	3,204
Account payables	2,626	2,948	2,971	3,245	3,266
Other current liabilities	807	763	763	763	763
Non-current liabilities	1,817	1,247	1,300	1,390	1,489
LT borrowings	1,697	1,117	1,171	1,261	1,360
Other non-current liabilities	120	129	129	129	129
Total liabilities	7,705	7,591	7,794	8,369	8,723
Share capital	65	65	65	65	65
Reserves	5,898	5,881	6,161	6,632	7,150
Minority interest	(26)	36	44	54	66
Shareholders' equity	5,937	5,982	6,269	6,751	7,280
Total equity and liabilities	13,642	13,573	14,063	15,120	16,003

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Handsets	74	78	80	79	77
Electrical Appliances	10	7	5	6	6
Notebook Computers	1	0	0	0	0
Ironware parts	7	7	6	7	7
Network commu.	8	9	8	9	10
Growth (%)					
Revenue	4	3	5	7	5
Gross profit	(20)	(7)	(3)	16	7
Operating profit	(41)	(20)	(25)	56	10
Net profit	(46)	(26)	(21)	62	10
Profit & loss ratio (%)					
Gross margin	20	18.3	17.0	18.4	18.8
Operating margin	8	6.4	4.6	6.7	7.0
Net profit margin	6	4.4	3.3	5.0	5.3
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	1.2	1.2
Receivable turnover days	144	120	120	120	120
Inventory turnover days	134	116	105	106	107
Payable turnover days	138	135	135	135	135
Profitability (%)					
ROE	9.1	6.7	5.1	7.7	7.8
ROA	4.0	3.0	2.3	3.4	3.6
Per share data (HK\$)					
EPS	0.09	0.062	0.049	0.080	0.088
DPS	0.01	0.01	0.01	0.01	0.01

Source: Company data, CMBIS estimates

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