

Tongda (698 HK)

Positive on Android recovery, Apple share gain and non-smartphone biz order wins

We spoke to mgmt. for business update post 1H23 results, and expect gradual recovery on track into 2H23/FY24E. Despite 1H23 revenue miss on smartphone inventory correction, GPM improved 2.4ppts YoY due to rising Apple's sales mix and improving operating efficiency. Looking into 2H23E, we are positive on Android recovery, Apple's casing material upgrade for better ASP/share gain and non-smartphone order wins. Apple now becomes Tongda's largest client (37% of FY23E sales), and we expect further share gain and more resilient growth ahead. Our new TP of HK\$ 0.17 is based on rolled-over 6.0x FY24E P/E. Trading at 4.4x/2.8x FY23/24E P/E (10-year low), we think the stock is extremely attractive. Catalysts include Apple's product launch and margin recovery.

■ **1H23 review: GPM beat on better sales mix and improving efficiency.** Tongda's 1H23 revenue decline of 29.9% YoY was 10%/10% below our/consensus estimates, mainly due to 27% YoY decline of handset casings & high-precision components (74% sales mix) for smartphone weakness and inventory correction. Household and sports goods revenue dropped 35% YoY on overseas customers' inventory correction. Network communication facilities and others' revenue was down 43% YoY. GPM improved 2.4ppts YoY to 20.3% driven by better product mix and operating efficiency. EBITDA margin improved 5.1ppts YoY to 20.1%, and one-off loss of HK\$28mn for disposed EA business resulted in net profit decline of 44.5% YoY.

■ **2H23E outlook: Android recovery, Apple share gain and positive on non-smartphone orders.** For Android business, mgmt. expects casing shipment recovery with steady ASP driven by inventory restocking and new model launch. For Apple biz, since Apple now becomes Tongda's largest client (37% of FY23E sales), we expect iPhone 15's casing material upgrade from metal to aluminium/titanium will drive ASP/share gain in 2H23E/2024. In addition, improving product mix (Apple/Android mix of 55%/45% in 2H) will drive GPM improvement. For household and sports goods biz, mgmt. expects better shipment and high margin at 28% in 2H23E backed by order recovery from IKEA/Decathlon and kitchenware stainless steel production. For network communications biz, mgmt. remains positive on customers' new order wins to drive 30%+ HoH revenue growth in 2H23E.

■ **Maintain BUY on attractive risk/reward.** We lowered FY23/25E revenue by 8-11% to reflect weak 1H23 results but revised up FY23-25E GPM for rising Apple's sales mix. Our new TP of HK\$0.17 is based on rolled over 6.0x FY24E P/E. Trading at 4.4x/2.8x FY23/24E P/E (10-year low), we think the stock is extremely attractive. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	9,433	7,559	7,077	7,851	8,258
YoY growth (%)	(3.3)	(19.9)	(6.4)	10.9	5.2
Net profit (HK\$ mn)	228.2	137.3	177.7	277.4	296.2
YoY growth (%)	(35.1)	(39.8)	29.5	56.1	6.8
EPS (Reported) (HK\$ cents)	2.89	1.41	1.83	2.85	3.05
YoY growth (%)	(41.5)	(51.2)	29.4	56.1	6.8
Consensus EPS (HK\$ cents)	na	2.00	2.20	3.10	2.11
P/E (x)	13.8	9.8	4.4	2.8	2.7
P/B (x)	0.4	0.2	0.1	0.1	0.1
Yield (%)	0.0	0.0	9.6	9.6	9.6
ROE (%)	3.1	1.7	2.3	3.5	3.6
Net gearing (%)	26.8	23.4	40.9	19.7	26.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$0.17
(Previous TP)	HK\$0.19)
Up/Downside	111.3%
Current Price	HK\$0.08

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Stock Data

Mkt Cap (HK\$ mn)	787.2
Avg 3 mths t/o (HK\$ mn)	0.5
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%

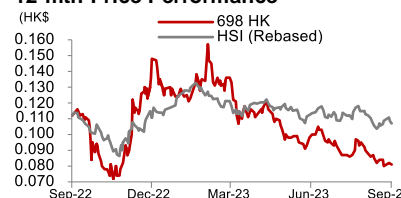
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.0%	-5.5%
3-mth	-18.2%	-13.5%
6-mth	-40.4%	-32.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

1H23 Results Review

Figure 1: Results review

RMB mn	2H21	1H22	2H22	1H23	YoY	CMBI		Consensus	
						1H23E	Diff%	1H23E	Diff%
Revenue	4,854	4,267	4,140	2,832	-34%	3,139	-10%	3,139.00	-10%
Gross profit	734	772	620	574	-26%	581	-1%	581	-1%
Operating profit	228	107	450	75	-30%	72	4%	na	na
Net profit	174	33	104	19	-42%	34	-43%	34	-43%
EPS (RMB)	0.022	0.003	0.003	0.002	-42%	0.003	-2%	na	na
Gross margin	15.1%	18.1%	15.0%	20.3%	2.2 ppt	18.5%	1.8 ppt	18.5%	1.8 ppt
Operating margin	4.7%	2.5%	10.9%	2.7%	0.1 ppt	2.3%	0.4 ppt	na	na
Net margin	3.6%	0.8%	2.5%	0.7%	-0.1 ppt	1.1%	-0.4 ppt	1.1%	-0.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Earnings Revision

Figure 2: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,077	7,851	8,258	7,695	8,530	9,251	-8%	-8%	-11%
Gross profit	1,398	1,560	1,658	1,488	1,645	1,807	-6%	-5%	-8%
Operating profit	242	342	362	264	369	392	-8%	-7%	-7%
Net profit	178	277	296	217	305	332	-18%	-9%	-11%
EPS (HK\$)	0.018	0.029	0.030	0.022	0.031	0.03	-18%	-9%	-11%
Gross margin	19.8%	19.9%	20.1%	19.3%	19.3%	19.5%	0.4 ppt	0.6 ppt	0.5 ppt
Operating margin	3.4%	4.4%	4.4%	3.4%	4.3%	4.2%	0 ppt	0 ppt	0.2 ppt
Net Margin	2.5%	3.5%	3.6%	2.8%	3.6%	3.6%	-0.3 ppt	0 ppt	0 ppt

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	7,077	7,851	8,258	7,695	8,530	9,251	-8%	-8%	-11%
Gross profit	1,398	1,560	1,658	1,485	1,646	1,804	-6%	-5%	-8%
Operating profit	242	342	362	na	na	na	na	na	na
Net profit	178	277	296	217	305	332	-18%	-9%	-11%
EPS (HK\$)	0.018	0.029	0.030	0.022	0.031	0.034	-17%	-8%	-10%
Gross margin	19.8%	19.9%	20.1%	19.3%	19.3%	19.5%	0.5 ppt	0.6 ppt	0.6 ppt
Operating margin	3.4%	4.4%	4.4%	0.0%	0.0%	0.0%	3.4 ppt	4.4 ppt	4.4 ppt
Net Margin	2.5%	3.5%	3.6%	2.8%	3.6%	3.6%	-0.3 ppt	0 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 4: Revenue breakdown

HK\$ mn	FY22	1H23	2H23E	FY23E	FY24E	FY25E
Handsets	5,335	2,101	3,079	5,179	5,651	5,702
...YoY	-27%	-27%	12%	-3%	9%	1%
Metal	421	134	199	333	301	280
...YoY	-43%	-47%	20%	-21%	-10%	-7%
Glastic	2,675	920	1,276	2,195	2,105	2,027
...YoY	-32%	-37%	6%	-18%	-4%	-4%
Apple	-	-	-	-	-	-
...YoY	0%	0%	0%	0%	0%	0%
Household & Sports goods	1,093	442	684	1,126	1,351	1,621
...YoY	-4%	-34%	10%	3%	20%	20%
Network communications	1,131	289	483	772	849	934
...YoY	12%	-43%	-23%	-32%	10%	10%
Total	7,559	2,832	4,246	7,077	7,851	8,258
...YoY	-24%	-34%	3%	-6%	11%	5%

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

HK\$ mn	FY22	1H23	2H23E	FY23E	FY24E	FY25E
Revenue	7,559	2,832	4,246	7,077	7,851	8,258
...YoY	-19.9%	-33.6%	2.6%	-6.4%	10.9%	5.2%
Cost of sales	-6,167	-2,258	-3,421	-5,679	-6,291	-6,600
Gross profit	1,392	574	824	1,398	1,560	1,658
GPM (%)	18.4%	20.3%	19.4%	19.8%	19.9%	20.1%
...YoY	-7.4%	-25.7%	33.0%	0.4%	11.6%	6.2%
Operating profit	557	75	166	242	342	362
OPM (%)	7.4%	2.7%	3.9%	3.4%	4.4%	4.4%
...YoY	80.8%	-29.7%	-63.1%	-56.6%	41.7%	5.9%
Net profit	137	19	158	178	277	296
NPM (%)	1.8%	0.7%	3.7%	2.5%	3.5%	3.6%
...YoY	-39.8%	-41.7%	52.2%	29.5%	56.1%	6.8%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$0.17

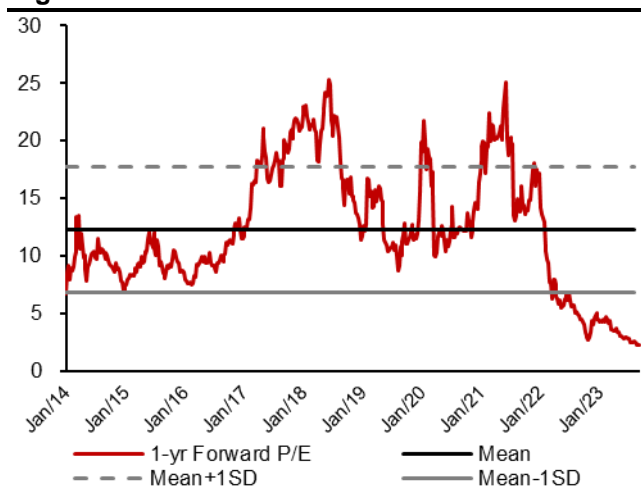
Our new TP of HK\$0.17 is based on rolled-over 6.0x FY24E P/E. We think current valuation of 4.4x/2.8x FY22E/23E P/E is attractive (well below 1-sd below hist. P/E) as we expect earnings recovery in 2023 and new business ramp-up in FY23-24E.

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
HK-listed												
Tongda	698 HK	BUY	101	0.08	0.17	110%	4.4	2.8	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	10,708	37.25	42.0	13%	21.7	17.6	2.6	2.3	11.9	13.0
Ju Teng	3336 HK	NR	168	1.10	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	717	0.71	NA	NA	18.1	9.1	0.4	0.4	2.2	4.4
Average							14.8	9.8	1.0	0.9	5.5	7.0
China-listed												
Everwin	300115 CH	NR	1,665	10.16	NA	NA	28.0	13.5	2.0	1.7	7.1	13.2
Janus	300083 CH	NR	1,456	6.38	NA	NA	26.3	18.2	2.2	2.0	8.3	10.8
Average							27.1	15.9	2.1	1.9	7.7	12.0
Overseas-listed												
Foxconn	2354 TT	NR	2,515	57.00	NA	NA	13.1	10.5	0.5	0.5	5.8	7.0
Catcher	2474 TT	NR	3,842	181.00	NA	NA	13.0	16.0	0.8	0.8	5.8	4.5
Average							13.1	13.3	0.7	0.6	5.8	5.7

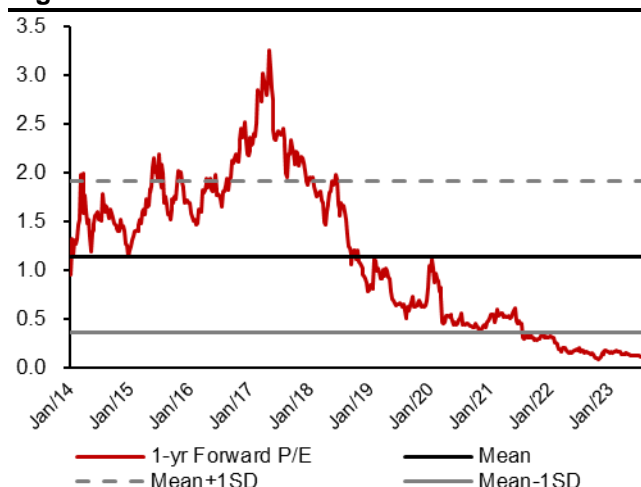
Source: Bloomberg, CMBIGM estimates

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	7,077	7,851	8,258
Cost of goods sold	(8,048)	(7,930)	(6,167)	(5,679)	(6,291)	(6,600)
Gross profit	1,710	1,503	1,392	1,398	1,560	1,658
Operating expenses	(1,186)	(1,163)	(1,175)	(1,127)	(1,155)	(1,230)
Selling expense	(136)	(57)	(53)	(53)	(63)	(83)
Admin expense	(1,050)	(1,106)	(1,122)	(1,074)	(1,093)	(1,147)
SG&A expense	0	0	0	0	0	0
Others	(22)	(32)	(62)	(30)	(63)	(66)
Operating profit	502	308	557	242	342	362
EBITDA	1,121	375	1,514	1,253	1,409	1,483
Other income/expense	102	69	71	151	108	109
Others	(175)	(74)	(138)	(138)	(138)	(138)
Pre-tax profit	430	303	491	254	312	333
Income tax	(70)	(51)	(67)	(32)	(29)	(32)
Minority interest	8	15	14	16	5	6
Net profit	351	228	137	178	277	296
Adjusted net profit	351	228	137	178	277	296

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	7,658	9,354	7,993	7,898	9,972	9,753
Cash & equivalents	1,353	1,366	1,195	653	2,364	1,839
Account receivables	2,993	3,317	2,159	2,574	2,677	2,847
Inventories	2,204	3,177	2,351	2,383	2,644	2,781
Prepayment	486	523	653	653	653	653
Other current assets	622	971	1,634	1,634	1,634	1,634
Non-current assets	6,642	7,402	6,236	6,526	6,060	5,539
PP&E	5,824	6,658	5,598	5,888	5,422	4,901
Other non-current assets	818	744	638	638	638	638
Total assets	14,300	16,755	14,229	14,425	16,032	15,292
Current liabilities	6,212	7,720	5,444	5,765	6,844	6,310
Short-term borrowings	2,228	2,931	1,928	2,783	2,865	2,957
Account payables	3,207	3,772	2,531	1,821	2,999	2,058
Other current liabilities	777	1,016	986	1,161	980	1,295
Non-current liabilities	1,422	814	1,154	1,167	1,185	1,205
Long-term borrowings	1,300	639	1,051	1,064	1,082	1,102
Other non-current liabilities	123	175	103	103	103	103
Total liabilities	7,634	8,534	6,598	6,932	8,029	7,515
Share capital	65	97	97	97	97	97
Other reserves	6,553	8,063	7,466	7,623	7,847	8,099
Total shareholders equity	6,666	8,221	7,631	7,805	8,035	8,293
Minority interest	49	61	68	84	90	95
Total equity and liabilities	14,300	16,755	14,229	14,737	16,064	15,808

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	430	303	491	254	312	333
Depreciation & amortization	619	67	957	1,012	1,067	1,121
Change in working capital	253	(731)	279	(1,157)	815	(1,248)
Others	96	769	(85)	(33)	84	(198)
Net cash from operations	1,397	408	1,642	77	2,278	8
Investing						
Capital expenditure	(1,176)	(900)	(600)	(600)	(600)	(600)
Others	318	(320)	18	16	8	31
Net cash from investing	(858)	(1,220)	(582)	(584)	(592)	(569)
Financing						
Dividend paid	(3)	0	0	(76)	(76)	(76)
Net borrowings	(223)	43	(256)	76	100	112
Proceeds from share issues	0	752	0	0	0	0
Others	(104)	(98)	0	0	0	0
Net cash from financing	(331)	696	(256)	(0)	24	36
Net change in cash						
Cash at the beginning of the year	1,078	1,353	1,366	1,271	653	2,364
Exchange difference	66	129	(898)	0	0	0
Cash at the end of the year	1,353	1,366	1,271	653	2,364	1,839
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	6.2%	(3.3%)	(19.9%)	(6.4%)	10.9%	5.2%
Gross profit	2.0%	(12.1%)	(7.4%)	0.4%	11.6%	6.2%
Operating profit	(14.3%)	(38.7%)	80.8%	(56.6%)	41.7%	5.9%
EBITDA	6.4%	(66.6%)	303.9%	(17.2%)	12.4%	5.3%
Net profit	(12.5%)	(35.1%)	(39.8%)	29.5%	56.1%	6.8%
Adj. net profit	(12.5%)	(35.1%)	(39.8%)	29.5%	56.1%	6.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	17.5%	15.9%	18.4%	19.8%	19.9%	20.1%
Operating margin	5.1%	3.3%	7.4%	3.4%	4.4%	4.4%
EBITDA margin	11.5%	4.0%	20.0%	17.7%	17.9%	18.0%
Adj. net profit margin	3.6%	2.4%	1.8%	2.5%	3.5%	3.6%
Return on equity (ROE)	5.6%	3.1%	1.7%	2.3%	3.5%	3.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.3	0.3	0.2	0.4	0.2	0.3
Current ratio (x)	1.2	1.2	1.5	1.4	1.5	1.5
Receivable turnover days	111.1	122.1	122.1	122.1	122.1	122.1
Inventory turnover days	100.9	123.8	163.6	152.1	145.8	150.0
Payable turnover days	139.6	160.6	139.8	139.8	139.8	139.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	10.0	13.8	9.8	4.4	2.8	2.7
P/B	0.5	0.4	0.2	0.1	0.1	0.1
Div yield (%)	0.1	0.0	0.0	9.6	9.6	9.6

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

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