

Tongda Group (698 HK)

Buy ahead of strong Apple and 5G recovery

We believe Tongda is poised to benefit from strong Apple demand and 5G-driven smartphone recovery in 2020, following Xiaomi shipment decline and Apple margin weakness in 2H19. As the early mover in Glasic casing market, we expect Tongda to become the largest Glasic supplier for Samsung and Vivo amid rapid 5G mass-market penetration in 2020. We adjusted our FY19-21E EPS on FX impact, and we raised TP to HK\$1.15 with higher 8x FY20E P/E (from 6x) to reflect higher earnings visibility and 5G sector upcycle in 2020. Reiterate BUY.

- **Expect strong 5G demand and Apple recovery after 2H19 weakness.** We expect Tongda revenue to accelerate to 18%/25% YoY in 1H20/2H20E after a mild recovery of 8% YoY in 2H19E. For 2020E, we believe Tongda will secure the major Glasic supplier status from Samsung/Vivo and benefit from new orders from Macbook waterproof components and iPad Pro adaptors. We expect Top 4 clients will be Samsung, Apple, Xiaomi and Vivo in 2020.
- **Major beneficiary of Samsung/Vivo's Glasic adoption.** Driven by rapid 5G penetration into mass market in 2020, we expect Samsung A-series and Vivo Y/iQOO-series to upgrade to Glasic casing for better signal and lower cost amid 5G SoC upgrade. Mgmt. estimated Glasic TAM to reach 200mn/300-400mn in FY19/20E, and we expect Tongda to become Chinese largest Glasic supplier with 100mn/140mn shipment in FY19/20E. We estimate glastic revenue to grow 56%/39% in FY19/20E, accounting for 37%/55% of FY19/20E sales.
- **iPhone: share gain and order win (Watch/Airpod) to boost growth.** We expect Tongda to benefit from iPhone 5G shipment recovery and expand into Watch/Airpod waterproof components in 2020E. In addition, we believe Tongda's iPhone content growth will continue with adoption of ceramic inject molding parts in 2020. Overall, we estimate 21%/29% in FY20/E21E.
- **Return to growth mode in 2020; Lifted TP to HK\$1.15 (24% upside).** We are bullish on Tongda's earnings momentum with 44%/16% YoY EPS growth in FY20/21E. We trimmed FY19/20/21E NP by 4-12% on FX impact, but lifted our TP to HK\$1.31 based on higher 8x FY20E P/E (from 6x) given stronger earnings visibility and sector re-rating on 5G optimism. Upcoming catalysts include strong Samsung/Apple shipment and Vivo product launch.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (HK\$ mn)	8,563	8,899	9,047	11,045	12,202
YoY growth (%)	9.4	3.9	1.7	22.1	10.5
Net income (HK\$ mn)	1,006	543	648	933	1,086
EPS (HK\$)	0.17	0.09	0.10	0.14	0.17
YoY growth (%)	(3.3)	(48.2)	14.2	43.9	16.4
P/E (x)	5.4	10.4	9.1	6.3	5.4
P/B (x)	0.9	0.9	0.8	0.8	0.7
Yield (%)	3.6	2.2	2.2	3.2	3.7
ROE (%)	17	9	10.0	12.9	13
Net gearing (%)	46	57	65	59	57

Source: Company data, CMBIS

BUY (Maintain)

Target Price	HK\$1.15
(Previous TP	HK\$0.91)
Upside	+26.4%
Current Price	HK\$0.91

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,896
Avg 3 mths t/o (HK\$ mn)	18.33
52w High/Low (HK\$)	1.15/0.46
Total Issued Shares (mn)	6,480
Source: Bloomberg	

Shareholding Structure

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

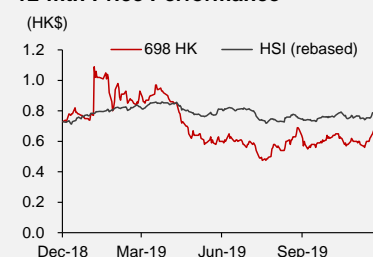
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	28.3%	22.5%
3-mth	13.2%	7.4%
6-mth	28.3%	31.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

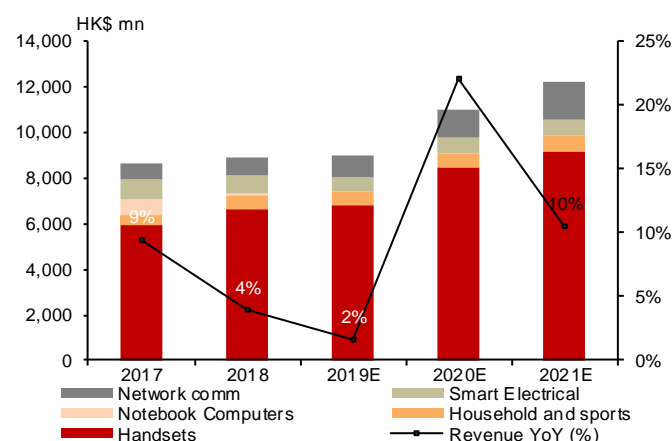
Auditor: Ernst & Young

Related Reports:

1. Tongda (698 HK) – Worst is over; back to growth mode – 28 Oct 2019
2. Tongda (698 HK) – 1H19 preview – 12 Aug 2019

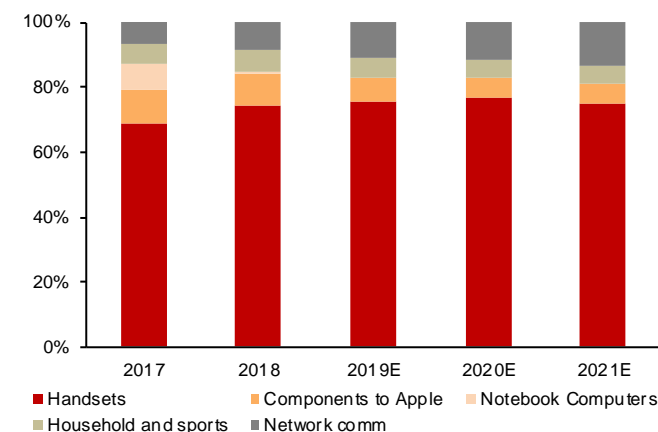
Focus Charts

Figure 1: Revenue trend



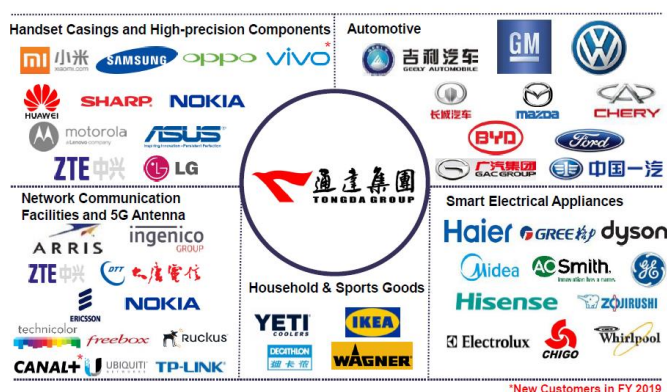
Source: Company data, CMBIS estimates

Figure 2: Revenue mix



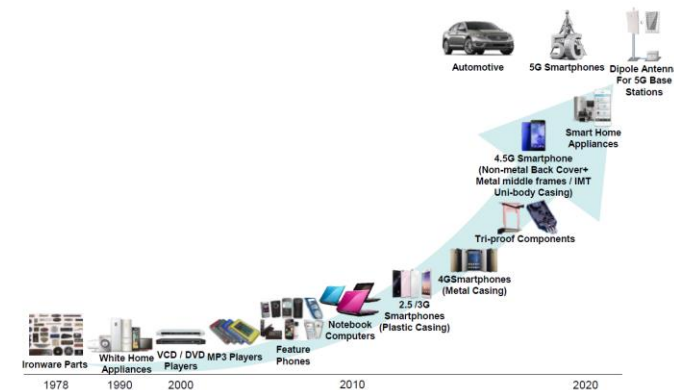
Source: Company data, CMBIS estimates

Figure 3: Diversified customer portfolio



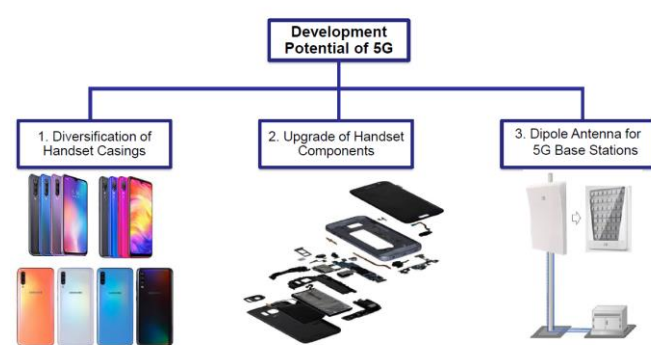
Source: Company data, CMBIS

Figure 4: Development milestone



Source: Company data, CMBIS

Figure 5: 5G development focus



Source: Company data, CMBIS

Figure 6: Automotive products



Source: Internet Info Agency

Source: Company data, CMBIS

Earnings Revision

Figure 7: Earnings revision

HK\$ mn	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	9,047	11,045	12,202	9,047	11,185	12,319	0%	-1%	-1%
Gross Profit	1,880	2,448	2,718	1,889	2,439	2,748	0%	0%	-1%
Operating Profit	930	1,235	1,372	938	1,239	1,425	-1%	0%	-4%
Net profit	648	933	1,086	736	982	1,128	-12%	-5%	-4%
EPS (HK\$)	0.10	0.14	0.17	0.11	0.15	0.17	-12%	-5%	-4%
Gross Margin	20.8%	22.2%	22.3%	20.9%	21.8%	22.3%	-0.1 ppt	0.4 ppt	0 ppt
Operating Margin	10.3%	11.2%	11.2%	10.4%	11.1%	11.6%	-0.1 ppt	0.1 ppt	-0.3 ppt
Net Margin	7.2%	8.4%	8.9%	8.1%	8.8%	9.2%	-1 ppt	-0.3 ppt	-0.3 ppt

Sources: Company data, CMBIS estimates

Figure 8: CMBI estimates vs consensus

HK\$ mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	9,047	11,045	12,202	9,228	10,679	11,773	-2%	3%	4%
Gross Profit	1,880	2,448	2,718	1,969	2,303	2,562	-4%	6%	6%
Operating Profit	930	1,235	1,372	986	1,188	1,380	-6%	4%	-1%
Net profit	648	933	1,086	726	900	1,039	-11%	4%	4%
EPS (HK\$)	0.10	0.14	0.17	0.11	0.14	0.16	-11%	4%	3%
Gross Margin	20.8%	22.2%	22.3%	21.3%	21.6%	21.8%	-0.5ppt	0.6ppt	0.5ppt
Operating Margin	10.3%	11.2%	11.2%	10.7%	11.1%	11.7%	-0.4ppt	0.1ppt	-0.5ppt
Net Margin	7.2%	8.4%	8.9%	7.9%	8.4%	8.8%	-0.7ppt	0ppt	0.1ppt

Source: Company data, CMBIS estimates

Figure 9: Revenue breakdown

HK\$ mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Handsets	5,911	2,895	3,726	6,621	2,856	3,953	6,810	8,470	9,173
...YoY	10%	23%	5%	12%	-1%	6%	3%	24%	8%
Metal	4,800	1,473	1,313	2,786	562	491	1,053	901	555
...YoY	1%	-32%	-50%	-42%	-62%	-63%	-62%	-14%	-38%
Glastic	336	1,049	1,095	2,145	1,193	2,147	3,340	4,645	5,187
...YoY	-26%	2208%	277%	538%	14%	96%	56%	39%	12%
Glass	1	117	90	207	328	355	683	819	715
...YoY	0%	0%	0%	14702%	180%	293%	229%	20%	-13%
Apple	863	506	343	849	774	961	668	668	688
...YoY	381%	0%	0%	92%	202%	-22%	17%	21%	29%
Electrical appliances	863	506	343	849	343	326	668	668	688
...YoY	44%	32%	-29%	-2%	-32%	-5%	-21%	0%	3%
Notebook computers	707	83	-	83	-	-	-	-	-
...YoY	51%	-66%	0%	-88%	-	-	-	-	-
-	502	357	250	607	328	275	603	633	697
...YoY	-4%	33%	7%	21%	-8%	10%	-1%	5%	10%
Network communications	707	310	429	739	382	584	966	1,274	1,644
...YoY	-18%	-16%	27%	5%	23%	36%	31%	32%	29%
Total	8,563	4,150	4,749	8,899	3,909	5,138	9,047	11,045	12,202
...YoY	9%	15%	-4%	4%	-6%	8%	2%	22%	10%

Source: Company data, CMBIS estimates

Figure 10: P&L forecast

HK\$ mn	FY17	1H18	2H18	FY18	1H19	2H19E	FY19E	FY20E	FY21E
Revenue	8,563	4,150	4,749	8,899	3,909	5,138	9,047	11,045	12,202
...YoY	9.4%	14.7%	-4.0%	3.9%	-5.8%	8.2%	1.7%	22.1%	10.5%
Cost of sales	(6,332)	(3,192)	(3,914)	(7,105)	(3,083)	(4,083)	(7,167)	(8,597)	(9,483)
Gross profit	2,231	959	835	1,794	826	1,055	1,880	2,448	2,718
GPM (%)	26.1%	23.1%	17.6%	20.2%	21.1%	20.5%	20.8%	22.2%	22.3%
...YoY	18.3%	4.3%	-36.3%	-19.6%	-13.9%	26.3%	4.8%	30.2%	11.0%
 Selling Exp	 (127)	 (76)	 (53)	 (129)	 (59)	 (57)	 (115)	 (140)	 (155)
...% of rev	-1.5%	-1.8%	-1.1%	-1.4%	-1.5%	-1.1%	-1.3%	-1.3%	-1.3%
R&D	(370)	(212)	(158)	(370)	(171)	(195)	(366)	(438)	(490)
...% of rev	-4.3%	-5.1%	-3.3%	-4.2%	-4.4%	-3.8%	-4.1%	-4.0%	-4.0%
Operating profit	1239	542	193	735	415	515	930	1235	1372
OPM (%)	14.5%	13.1%	4.1%	8.3%	10.6%	10.0%	10.3%	11.2%	11.2%
...YoY	5.8%	44.5%	-77.7%	-40.7%	-23.5%	166.9%	26.5%	32.8%	11.1%
 Net profit	 1,006	 419	 124	 543	 316	 334	 648	 933	 1,086
NPM (%)	11.7%	10.1%	2.6%	6.1%	8.1%	6.5%	7.2%	8.4%	8.9%
...YoY	0.2%	44.2%	-82.7%	-46.0%	-24.6%	169.2%	19.4%	43.9%	16.4%

Source: Company data, CMBIS estimates

Valuation

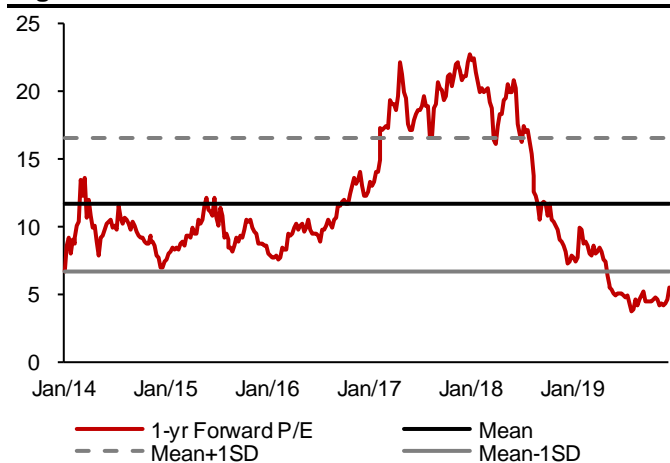
Reiterate BUY and lifted TP at HK\$1.15 (24% upside)

Our new 12m TP of HK\$1.15 is based on higher 8x FY20E P/E (from 6x P/E), slightly above 1-sd of historical average P/E of 7.2x. We believe the stock should be re-rated given solid earnings recovery in FY20-21E. Upcoming catalysts include: 1) Samsung's strong demand in glastic casings and potential shipment upside in 2020E, 2) new content for iPhone, and 3) 5G-driven casing upgrade to glass/plastic materials in FY20E.

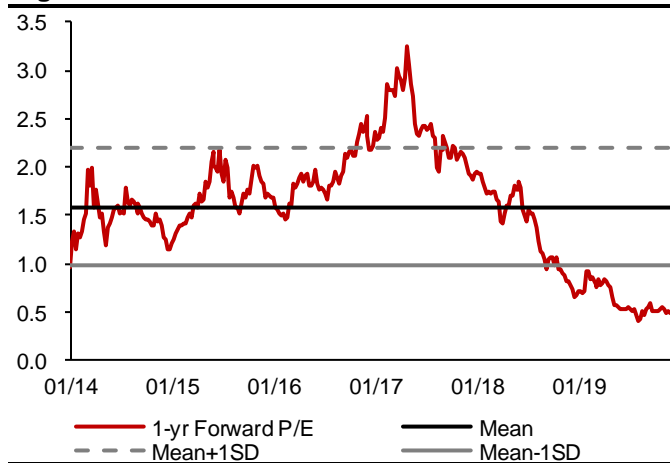
Figure 11: Peers valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
HK-listed												
Tongda	698 HK	Buy	757	0.91	1.15	26%	9.1	6.3	0.8	0.8	10.0	12.9
BYDE	285 HK	Hold	4,432	15.32	15.0	-2%	20.8	16.2	1.8	1.7	8.8	10.3
Ju Teng	3336 HK	NR	306	2.04	NA	NA	10.9	8.3	0.4	0.4	2.5	4.1
FIH	2038 HK	NR	1,613	1.53	NA	NA	-	17.9	0.8	0.8	-	4.2
Average							12.9	12.1	1.0	0.9	7.7	7.8
China-listed												
Everwin	300115 CH	NR	2,337	18.01	NA	NA	42.3	29.2	3.5	3.2	8.5	11.0
Janu	300083 CH	NR	820	4.02	NA	NA	-	-	-	-	-	-
Average							42.3	29.2	3.5	3.2	8.5	11.0
Overseas-listed												
Foxconn	2354 TT	NR	3,171	67.60	NA	NA	11.8	11.0	0.8	0.9	8.0	8.2
Casetek	5264 TT	NR	680	48.80	NA	NA	-	17.6	0.6	0.6	-	3.0
Catcher	2474 TT	NR	6,260	245.00	NA	NA	14.2	9.7	1.2	1.1	8.8	12.1
Average							13.0	12.8	0.9	0.9	8.4	7.8

Source: Bloomberg, CMBIS estimates

Figure 12: 12M forward P/E band

Source: Company data, CMBIS estimates

Figure 13: 12M forward P/B band

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	8,563	8,899	9,047	11,045	12,202
COGS	(6,332)	(7,105)	(7,167)	(8,597)	(9,483)
Gross profit	2,231	1,794	1,880	2,448	2,718
Selling and marketing	(127)	(129)	(115)	(140)	(155)
Administrative	(844)	(875)	(879)	(1,046)	(1,161)
R&D					
Other operating exp.	(22)	(55)	44	(28)	(31)
Operating profit	1,239	735	930	1,235	1,372
Financial cost	(111)	(174)	(187)	(203)	(227)
Other income/(loss)	127	115	45	88	159
Pre-tax profit	1,256	676	788	1,120	1,303
Tax	(197)	(113)	(132)	(168)	(195)
Minority interest	53	20	7	19	22
Net profit	1,006	543	648	933	1,086

Cash flow summary

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	1,256	676	788	1,120	1,303
Depreciation	357	390	443	498	554
Change in working capital	(838)	(19)	(758)	(342)	(794)
Others	(121)	(9)	(142)	(173)	(206)
Net cash from operating	654	1,038	330	1,104	857
Capex	(1,087)	(911)	(1,000)	(1,000)	(1,000)
Other	(686)	(631)	10	5	10
Net cash from investing	(1,772)	(1,542)	(990)	(995)	(990)
Net borrowings	1,375	947	368	535	623
Dividend paid	(291)	(35)	(130)	(187)	(217)
Share issue/(repurchase)	-	-			
Other	(56)	(356)			
Net cash from financing	1,028	556	238	349	406
Net change in cash	(90)	52	(422)	457	273
Cash at beginning of the year	869	792	768	347	803
Exchange difference	14	(76)			
Cash at the end of the year	792	768	347	803	1,077

Balance sheet

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	8,521	7,720	8,233	9,938	10,770
Cash & equivalents	792	768	347	803	1,077
Account receivables	3,891	3,115	4,007	4,688	4,917
Inventories	2,677	2,529	2,571	3,139	3,467
Prepayments	514	547	547	547	547
Other current assets	647	761	761	761	761
Non-current assets	5,103	5,922	6,479	6,981	7,428
PPE	4,239	4,850	5,407	5,909	6,356
Prepaid land lease	272	262	262	262	262
Investment property	64	68	68	68	68
Long-term deposits	345	626	626	626	626
Other non-current assets	184	116	116	116	116
Total assets	13,624	13,642	14,712	16,920	18,197
Current liabilities	6,380	5,888	6,281	7,505	7,637
ST borrowings	2,235	2,455	2,672	2,989	3,357
Account payables	2,756	2,626	2,802	3,709	3,473
Other current liabilities	1,389	807	807	807	807
Non-current liabilities	1,358	1,817	1,968	2,186	2,441
LT borrowings	1,240	1,697	1,847	2,066	2,321
Other non-current liabilities	118	120	120	120	120
Total liabilities	7,738	7,705	8,249	9,691	10,078
Share capital	61	65	65	65	65
Reserves	5,774	5,898	6,417	7,163	8,032
Minority interest	51	(26)	(19)	0	23
Shareholders' equity	5,885	5,937	6,463	7,228	8,119
Total equity and liabilities	13,624	13,642	14,712	16,920	18,197

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Handsets	69	74	75	77	75
Electrical Appliances	10	10	7	6	6
Notebook Computers	8	1	0	0	0
Ironware parts	6	7	7	6	6
Network commu.	8	8	11	12	13
Growth (%)					
Revenue	9.4	3.9	1.7	22.1	10.5
Gross profit	18.3	(19.6)	4.8	69.7	74.3
Operating profit	5.8	(40.7)	26.5	32.8	11.1
Net profit	0.2	(46.0)	19.4	43.9	16.4
Profit & loss ratio (%)					
Gross margin	26	20	20.8	22.2	22.3
Operating margin	14	8	10.3	11.2	11.2
Net profit margin	12	6	7.2	8.4	8.9
Balance sheet ratio					
Net debt/total equity (x)	0.5	0.6	0.6	0.6	0.6
Current ratio (x)	1.3	1.3	1.3	1.3	1.4
Receivable turnover days	155	144	144	144	144
Inventory turnover days	127	134	130	121	127
Payable turnover days	142	138	138	138	138
Profitability (%)					
ROE	17.1	9.1	10.0	12.9	13.4
ROA	7.4	4.0	4.4	5.5	6.0
Per share data (HK\$)					
EPS	0.17	0.09	0.100	0.144	0.168
DPS	0.03	0.02	0.02	0.03	0.03

Source: Company data, CMBIS estimates

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NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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