

Tongda (698 HK)

1H23 Preview: weak revenue amid industry headwinds; expect smartphone recovery in 2H23E

Tongda will announce its 1H23 results in late Aug. We expect 1H23 revenue decline of 26.4% YoY and flattish net profit due to smartphone weakness and inventory correction, but GPM will improve 3.5ppts QoQ on share gain of higher-margin Apple business. Looking into 2H23E, we are positive on smartphone recovery and Apple share gain to drive revenue growth and GPM improvement. We revised down our FY23-24E EPS to reflect 1H23 weakness and higher opex, partly offset by improved GPM on better product mix. Our new TP of HK\$ 0.19 is based on rolled-over 6.0x FY24E P/E. Trading at 4.2x/3.0x FY23/24E P/E, we think the stock has attractive risk/reward. Maintain BUY.

- **1H23E preview: revenue/NP of -26.4%/+1.8% YoY; Improving GPM on better product mix.** Given smartphone weakness, inventory correction and high base in 1H22, we expect handset revenue to decline 28% YoY in 1H23E. Despite inflationary pressure on European & US consumer demand and inventory adjustment in 1Q23, we expect household and sports goods segment revenue to grow 20% YoY in 1H backed by stronger orders from IKEA and Decathlon. Network communications' revenue would drop 47% YoY given weak business in 1H23. We expect GPM to climb 3.5ppts to 18.5% driven by better product mix and share gain of high-margin Apple products. Overall, we expect 1H revenue to decline 26.4% YoY but net profit to grow 1.8% YoY on better GPM.
- **2H23E outlook: Smartphone recovery to drive better revenue/GPM.** Looking into 2H23E, we expect revenue to grow 10% YoY mainly driven by smartphone business recovery (~75% of total sales). For handset business, we expect Android recovery and steady ASP given easing competition. We also expect new iPhones' casing material upgrade from metal to aluminium to drive ASP/GPM upside in 2H23E. In addition, we remain positive on household and sport goods biz spin-off and capacity expansion to drive better sales/profitability. Network communications & others will benefit from chip shortage ease and Wifi-7 launch in 2H23E. Overall, we estimate 2H23 revenue/net profit to grow 10%/59% YoY, and GPM to improve to 19.9% in 2H23 (vs 15.0% in 2H22) driven by better product mix.
- **Attractive risk/reward; Maintain BUY.** We lowered FY23/25E revenue by 1-2% to reflect weaker handset business but revised up FY23-24E GPM for higher Apple sales mix. Our new TP of HK\$0.19 is based on rolled over 6.0x FY24E PE. Trading at 4.2x/3.0x FY23/24E P/E (10-year low), we think the stock has attractive risk/reward. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	9,433	7,559	7,695	8,530	9,251
YoY growth (%)	(3.3)	(19.9)	1.8	10.9	8.5
Net profit (HK\$ mn)	228.2	137.3	217.4	304.8	331.6
YoY growth (%)	(35.1)	(39.8)	58.3	40.2	8.8
EPS (Reported) (HK\$ cents)	2.89	1.41	2.24	3.14	3.41
YoY growth (%)	(41.5)	(51.2)	58.4	40.2	8.8
Consensus EPS (HK\$ cents)	na	2.00	3.60	4.00	2.11
P/E (x)	13.8	9.8	4.2	3.0	2.8
P/B (x)	0.3	0.1	0.1	0.1	0.1
Yield (%)	0.0	0.0	8.3	8.3	8.3
ROE (%)	3.1	1.7	2.8	3.9	4.1
Net gearing (%)	26.8	23.4	42.5	22.3	28.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$0.19
(Previous TP)	HK\$0.20)
Up/Downside	98%
Current Price	HK\$0.09

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Stock Data

Mkt Cap (HK\$ mn)	913.6
Avg 3 mths t/o (HK\$ mn)	0.4
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%

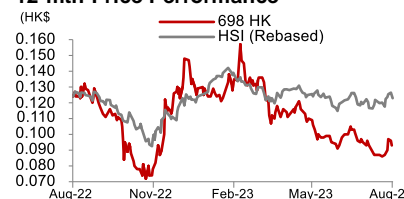
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.1%	-4.1%
3-mth	-13.8%	-11.9%
6-mth	-30.4%	-21.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,695	8,530	9,251	7,845	8,642	9,386	-2%	-1%	-1%
Gross profit	1,488	1,645	1,807	1,502	1,662	1,827	-1%	-1%	-1%
Operating profit	264	369	392	416	460	504	-37%	-20%	-22%
Net profit	217	305	332	354	386	432	-39%	-21%	-23%
EPS (HK\$)	0.022	0.031	0.034	0.036	0.040	0.04	-39%	-21%	-23%
Gross margin	19.3%	19.3%	19.5%	19.1%	19.2%	19.5%	0.2 ppt	0.1 ppt	0.1 ppt
Operating margin	3.4%	4.3%	4.2%	5.3%	5.3%	5.4%	-1.9 ppt	-1 ppt	-1.1 ppt
Net Margin	2.8%	3.6%	3.6%	4.5%	4.5%	4.6%	-1.7 ppt	-0.9 ppt	-1 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,695	8,530	9,251	7,845	8,642	9,386	-2%	-1%	-1%
Gross profit	1,488	1,645	1,807	1,498	1,659	1,830	-1%	-1%	-1%
Operating profit	264	369	392	na	na	na	na	na	na
Net profit	217	305	332	354	386	432	-39%	-21%	-23%
EPS (HK\$)	0.022	0.031	0.034	0.036	0.040	0.044	-38%	-22%	-22%
Gross margin	19.3%	19.3%	19.5%	19.1%	19.2%	19.5%	0.2 ppt	0.1 ppt	0 ppt
Operating margin	3.4%	4.3%	4.2%	na	na	na	na	na	na
Net Margin	2.8%	3.6%	3.6%	4.5%	4.5%	4.6%	-1.7 ppt	-0.9 ppt	-1 ppt

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

HK\$ mn	FY22	1H23E	2H23E	FY23E	FY24E	FY25E
Handsets	5,335	2,060	3,401	5,461	5,927	6,212
...YoY	-27%	-28%	24%	2%	9%	5%
Metal	421	128	191	320	360	360
...YoY	-43%	-50%	15%	-24%	13%	0%
Glastic	2,675	962	1,417	2,379	2,457	2,457
...YoY	-32%	-34%	17%	-11%	3%	0%
Apple	2,496	949	1,763	2,712	2,810	2,995
...YoY	7%	-17%	30%	9%	4%	7%
Household & Sports goods	1,093	809	653	1,462	1,754	2,105
...YoY	-4%	20%	5%	34%	20%	20%
Network communications	1,131	270	502	772	849	934
...YoY	12%	-47%	-20%	-32%	10%	10%
Total	7,559	3,139	4,556	7,695	8,530	9,251
...YoY	-24%	-26%	10%	2%	11%	8%

Source: Company data, CMBIGM estimates

Figure 4: P&L forecast

HK\$ mn	FY22	1H23E	2H23E	FY23E	FY24E	FY25E
Revenue	7,559	3,139	4,556	7,695	8,530	9,251
...YoY	-19.9%	-26.4%	10.1%	1.8%	10.9%	8.5%
Cost of sales	-6,167	-2,558	-3,650	-6,207	-6,886	-7,444
Gross profit	1,392	581	907	1,488	1,645	1,807
GPM (%)	18.4%	18.5%	19.9%	19.3%	19.3%	19.5%
...YoY	-7.4%	-24.8%	46.3%	6.8%	10.6%	9.9%
Operating profit	557	72	191	264	369	392
OPM (%)	7.4%	2.3%	4.2%	3.4%	4.3%	4.2%
...YoY	80.8%	-32.4%	-57.4%	-52.6%	39.9%	6.1%
Net profit	137	34	166	217	305	332
NPM (%)	1.8%	1.1%	3.6%	2.8%	3.6%	3.6%
...YoY	-39.8%	1.8%	59.1%	58.3%	40.2%	8.8%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$0.19

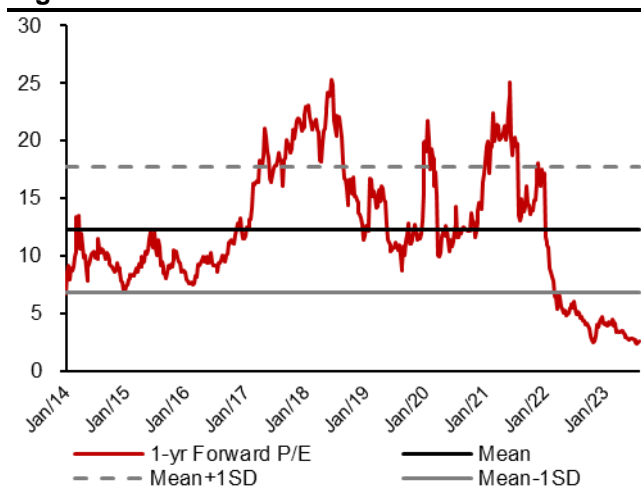
Our new TP of HK\$0.19 is based on rolled-over 6.0x FY24E P/E. We think current valuation of 4.2x/3.0x FY22E/23E P/E is attractive (well below 1-sd below hist. P/E) as we expect earnings recovery in 2023 and new business ramp-up in FY23-24E.

Figure 5: 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	117	0.09	0.19	98%	4.2	3.0	0.1	0.1	1.8	3.8
BYDE	285 HK	BUY	8,592	29.75	31.7	6%	18.2	14.8	2.1	1.9	11.7	12.8
Ju Teng	3336 HK	NR	172	1.12	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	812	0.80	NA	NA	20.5	10.3	0.5	0.4	2.2	4.4
Average							14.3	9.4	0.9	0.8	5.2	7.0
China-listed												
Everwin	300115 CH	NR	1,785	10.69	NA	NA	26.4	14.0	2.1	1.8	7.9	13.2
Janus	300083 CH	NR	1,598	6.86	NA	NA	28.6	18.5	2.3	2.0	8.1	10.9
Average							27.5	16.3	2.2	1.9	8.0	12.1
Overseas-listed												
Foxconn	2354 TT	NR	2,438	54.50	NA	NA	11.7	10.9	0.4	0.4	5.7	5.9
Catcher	2474 TT	NR	3,743	174.00	NA	NA	16.1	15.8	0.7	0.7	4.6	4.5
Average							13.9	13.4	0.6	0.6	5.1	5.2

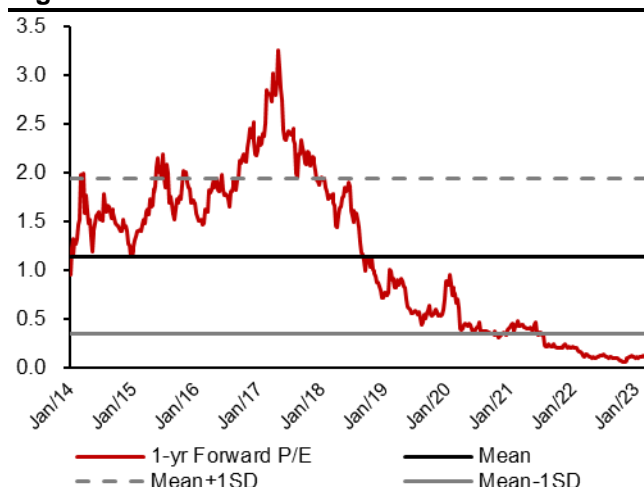
Source: Bloomberg, CMBIGM estimates

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 7: 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	7,695	8,530	9,251
Cost of goods sold	(8,048)	(7,930)	(6,167)	(6,207)	(6,886)	(7,444)
Gross profit	1,710	1,503	1,392	1,488	1,645	1,807
Operating expenses	(1,186)	(1,163)	(1,175)	(1,159)	(1,207)	(1,341)
Selling expense	(136)	(57)	(53)	(68)	(68)	(93)
Admin expense	(1,050)	(1,106)	(1,122)	(1,091)	(1,139)	(1,249)
SG&A expense	0	0	0	0	0	0
Others	(22)	(32)	(62)	(65)	(68)	(74)
Operating profit	502	308	557	264	369	392
EBITDA	1,121	375	1,514	1,276	1,436	1,513
Other income/expense	102	69	71	118	112	120
Others	(175)	(74)	(138)	(138)	(138)	(138)
Pre-tax profit	430	303	491	244	343	374
Income tax	(70)	(51)	(67)	(23)	(33)	(36)
Minority interest	8	15	14	4	6	6
Net profit	351	228	137	217	305	332
Adjusted net profit	351	228	137	217	305	332

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	7,658	9,354	7,993	8,400	10,027	10,528
Cash & equivalents	1,353	1,366	1,195	533	2,150	1,655
Account receivables	2,993	3,317	2,159	2,988	2,718	3,470
Inventories	2,204	3,177	2,351	2,591	2,873	3,115
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	14,926	16,087	16,067
Current liabilities	6,212	7,720	5,444	5,984	6,893	6,589
Short-term borrowings	2,228	2,931	1,928	2,773	2,856	2,950
Account payables	3,207	3,772	2,531	2,226	3,051	2,654
Other current liabilities	777	1,016	986	986	986	986
Non-current liabilities	1,422	814	1,154	1,165	1,183	1,204
Long-term borrowings	1,300	639	1,051	1,062	1,080	1,101
Other non-current liabilities	123	175	103	103	103	103
Total liabilities	7,634	8,534	6,598	7,149	8,076	7,793
Share capital	65	97	97	97	97	97
Other reserves	6,553	8,063	7,466	7,607	7,836	8,092
Total shareholders equity	6,666	8,221	7,631	7,776	8,011	8,273
Minority interest	49	61	68	72	78	84
Total equity and liabilities	14,300	16,755	14,229	14,925	16,087	16,066

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	430	303	491	244	343	374
Depreciation & amortization	619	67	957	1,012	1,067	1,121
Change in working capital	253	(731)	279	(1,373)	813	(1,391)
Others	96	769	(85)	(23)	(39)	(63)
Net cash from operations	1,397	408	1,642	(140)	2,183	40
Investing						
Capital expenditure	(1,176)	(900)	(600)	(600)	(600)	(600)
Others	318	(320)	18	16	7	28
Net cash from investing	(858)	(1,220)	(582)	(584)	(593)	(572)
Financing						
Dividend paid	(3)	0	0	(76)	(76)	(76)
Net borrowings	(223)	43	(256)	63	102	114
Proceeds from share issues	0	752	0	0	0	0
Others	(104)	(98)	0	0	0	0
Net cash from financing	(331)	696	(256)	(13)	26	38
Net change in cash						
Cash at the beginning of the year	1,078	1,353	1,366	1,271	533	2,150
Exchange difference	66	129	(898)	0	0	0
Cash at the end of the year	1,353	1,366	1,271	533	2,150	1,655
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	6.2%	(3.3%)	(19.9%)	1.8%	10.9%	8.5%
Gross profit	2.0%	(12.1%)	(7.4%)	6.8%	10.6%	9.9%
Operating profit	(14.3%)	(38.7%)	80.8%	(52.6%)	39.9%	6.1%
EBITDA	6.4%	(66.6%)	303.9%	(15.8%)	12.5%	5.4%
Net profit	(12.5%)	(35.1%)	(39.8%)	58.3%	40.2%	8.8%
Adj. net profit	(12.5%)	(35.1%)	(39.8%)	58.3%	40.2%	8.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	17.5%	15.9%	18.4%	19.3%	19.3%	19.5%
Operating margin	5.1%	3.3%	7.4%	3.4%	4.3%	4.2%
EBITDA margin	11.5%	4.0%	20.0%	16.6%	16.8%	16.4%
Adj. net profit margin	3.6%	2.4%	1.8%	2.8%	3.6%	3.6%
Return on equity (ROE)	5.6%	3.1%	1.7%	2.8%	3.9%	4.1%
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	1.6
Receivable turnover days	111.1	122.1	122.1	122.1	122.1	122.1
Inventory turnover days	100.9	123.8	163.6	145.3	144.8	146.8
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	4.2	3.0	2.8
P/B	0.5	0.3	0.1	0.1	0.1	0.1
Div yield (%)	0.1	0.0	0.0	8.3	8.3	8.3

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

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