

# Tongda (698 HK)

## Positive on earnings recovery in FY24-25E after disposal of Apple business

Tongda announced plans to dispose its Apple business and purchase back smart electrical appliances and motor businesses, in order to mitigate geopolitical risks and boost capital for future new business development. After our discussion with mgmt., we expect Apple biz disposal will allow Tongda to focus more on non-Apple customers' market share gains and boost capital for new businesses given the likely smartphone recovery in 2024, while business buyback should accelerate profitability improvement driven by order wins in FY24-25E. We lower FY23/25E EPS estimates by 4-19% to reflect the business disposal and cut interest expense assumptions. Our new TP of HK\$0.155 is based on the same 6.0x FY24E P/E. Trading at 7.1x/4.0x FY23/24E P/E (a 10-year low), the stock has attractive risk/reward in our view. Maintain BUY.

- Apple biz disposal to boost capital for new business development.** Tongda announced that its indirect wholly-owned subsidiary Tongda Precision had signed an agreement with the buyer (Tectum Global) to sell all equity of Tongda Xiamen Precision Rubber and all issued shares of TPT Singapore for a total consideration of HKD\$2.015bn in cash. Tongda will use ~80% of net proceeds from the disposal for repaying floating-rate indebtedness to reduce finance cost expenditures and improve liquidity and gearing ratio, which we think will improve its balance sheet and overall profitability. We believe one of the main reasons for the disposal is the recent challenging geopolitical environment for production expansion in the overseas market, and we expect the disposal to be completed in 1H24E. In addition, we expect the disposal to drive smartphone casing growth as Tongda can focus more on non-Apple customers such as Honor, Xiaomi, Vivo and Transsion with share gains and an improving UTR amid smartphone market recovery in 2024.
- Smart electrical appliances and motors to contribute sales in 2024 after biz buyback.** Tongda also announced that its indirect wholly-owned subsidiary, Tongda Intelligence (BVI) will acquire all shares of Credence Technology (small motors, small fans, micro motors and their precision manufacturing) from Tongda Group (Asia) Limited at HKD60mn. In addition, Tongda terminated the sale of shares of Stedfast Investments (smart electrical appliances) at the cost of HKD60mn. We expect smart electrical appliances and motor businesses to contribute sales of HKD250mn/350mn driven by major customer orders in FY24E.
- Positive on household & sports goods and network communication sales growth in FY24E.** Mgmt. expected household and sports goods sales to achieve double-digit growth in FY24E driven by customers' demand recovery and new factories' capacity ramp-up. Driven by WiFi 7 router applications popularization, the Paris Olympic Games in 2024 and a major US customer order win, mgmt. expects new network communication products to drive sales growth in FY24E.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	9,433	7,559	6,766	6,215	6,458
YoY growth (%)	(3.3)	(19.9)	(10.5)	(8.1)	3.9
Net profit (HK\$ mn)	228.2	137.3	141.2	251.0	281.5
YoY growth (%)	(35.1)	(39.8)	2.8	77.8	12.1
EPS (Reported) (HK\$ cents)	2.89	1.41	1.45	2.58	2.89
YoY growth (%)	(41.5)	(51.2)	2.8	77.8	12.1
Consensus EPS (HK\$ cents)	na	2.00	1.80	2.90	2.11
P/E (x)	13.8	9.8	7.1	4.0	3.6
P/B (x)	0.4	0.2	0.1	0.1	0.1
Yield (%)	0.0	0.0	7.6	7.6	7.6
ROE (%)	3.1	1.7	1.8	3.2	3.4
Net gearing (%)	26.8	23.4	40.9	19.7	26.8

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$0.155</b>
(Previous TP)	HK\$0.170)
<b>Up/Downside</b>	<b>50.4%</b>
<b>Current Price</b>	<b>HK\$0.10</b>

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### Stock Data

Mkt Cap (HK\$ mn)	1,001.1
Avg 3 mths t/o (HK\$ mn)	2.8
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%

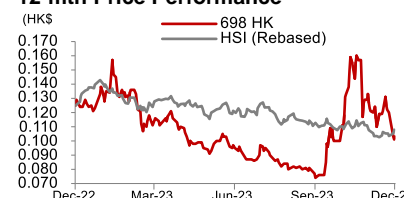
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	-18.9%	-19.2%
3-mth	39.2%	45.4%
6-mth	8.4%	20.4%

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	6,766	6,215	6,458	7,077	7,851	8,258	-4%	-21%	-22%
Gross profit	1,312	1,107	1,162	1,398	1,560	1,658	-6%	-29%	-30%
Operating profit	204	243	278	242	342	362	-16%	-29%	-23%
Net profit	141	251	281	178	277	296	-21%	-9%	-5%
EPS (HK\$)	0.015	0.026	0.029	0.018	0.029	0.03	-19%	-11%	-4%
Gross margin	19.4%	17.8%	18.0%	19.8%	19.9%	20.1%	-0.4 ppt	-2.1 ppt	-2.1 ppt
Operating margin	3.0%	3.9%	4.3%	3.4%	4.4%	4.4%	-0.4 ppt	-0.5 ppt	-0.1 ppt
Net Margin	2.1%	4.0%	4.4%	2.5%	3.5%	3.6%	-0.4 ppt	0.5 ppt	0.8 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	6,766	6,215	6,458	na	na	na	na	na	na
Gross profit	1,312	1,107	1,162	na	na	na	na	na	na
Operating profit	204	243	278	na	na	na	na	na	na
Net profit	141	251	281	178	277	296	-21%	-9%	-5%
EPS (HK\$)	0.015	0.026	0.029	0.018	0.029	0.031	-19%	-11%	-7%
Gross margin	19.4%	17.8%	18.0%	19.8%	19.9%	20.1%	-0.4 ppt	-2.1 ppt	-2.1 ppt
Operating margin	3.0%	3.9%	4.3%	na	na	na	na	na	na
Net Margin	2.1%	4.0%	4.4%	na	na	na	na	na	na

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Revenue breakdown

HK\$ mn	FY22	1H23	2H23E	FY23E	FY24E	FY25E
<b>Handsets</b>	<b>5,335</b>	<b>2,101</b>	<b>2,767</b>	<b>4,868</b>	<b>3,553</b>	<b>3,570</b>
...YoY	-27%	-27%	1%	-9%	-27%	0%
Metal	421	134	199	333	350	350
...YoY	-43%	-47%	20%	-21%	5%	0%
Non-metal	2,675	920	1,276	2,195	2,400	2,820
...YoY	-32%	-37%	6%	-18%	9%	18%
Glass	-	-	-	-	-	-
...YoY	0%	0%	0%	0%	0%	0%
Apple	2,496	1,047	1,263	2,309	503	-
...YoY	7%	-8%	-7%	-7%	-78%	-100%
<b>Electrical appliances</b>	-	-	-	-	<b>250</b>	<b>350</b>
...YoY	-100%	0%	0%	0%	0%	0%
<b>Notebook computers</b>	-	-	-	-	-	-
...YoY	-	-	-	-	-	-
<b>Household goods</b>	<b>1,093</b>	<b>442</b>	<b>684</b>	<b>1,126</b>	<b>1,351</b>	<b>1,756</b>
...YoY	-4%	-34%	10%	3%	20%	30%
<b>Network communications</b>	<b>1,131</b>	<b>289</b>	<b>483</b>	<b>772</b>	<b>710</b>	<b>781</b>
...YoY	12%	-43%	-23%	-32%	-8%	10%
<b>Total</b>	<b>7,559</b>	<b>2,832</b>	<b>3,934</b>	<b>6,766</b>	<b>6,215</b>	<b>6,458</b>
...YoY	-24%	-34%	-5%	-10%	-8%	4%

Source: Company data, CMBIGM estimates

Figure 4: P&amp;L forecast

HK\$ mn	FY22	1H23	2H23E	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>7,559</b>	<b>2,832</b>	<b>3,934</b>	<b>6,766</b>	<b>6,215</b>	<b>6,458</b>
...YoY	-19.9%	-33.6%	-5.0%	-10.5%	-8.1%	3.9%
Cost of sales	-6,167	-2,258	-3,195	-5,453	-5,108	-5,295
<b>Gross profit</b>	<b>1,392</b>	<b>574</b>	<b>739</b>	<b>1,312</b>	<b>1,107</b>	<b>1,162</b>
GPM (%)	18.4%	20.3%	18.8%	19.4%	17.8%	18.0%
...YoY	-7.4%	-25.7%	19.1%	-5.7%	-15.7%	5.0%
Selling Exp	(53)	(19)	(31)	(50)	(37)	(39)
...% of rev	-0.7%	-0.7%	-0.8%	-0.7%	-0.6%	-0.6%
R&D	(515)	(242)	(260)	(501)	(373)	(387)
...% of rev	-6.8%	-8.5%	-6.6%	-7.4%	-6.0%	-6.0%
<b>Operating profit</b>	<b>557</b>	<b>75</b>	<b>129</b>	<b>204</b>	<b>243</b>	<b>278</b>
OPM (%)	7.4%	2.7%	3.3%	3.0%	3.9%	4.3%
...YoY	80.8%	-29.7%	-71.4%	-63.4%	18.9%	14.4%
<b>Net profit</b>	<b>137</b>	<b>19</b>	<b>122</b>	<b>141</b>	<b>251</b>	<b>281</b>
NPM (%)	1.8%	0.7%	3.1%	2.1%	4.0%	4.4%
...YoY	-39.8%	-41.7%	17.0%	2.8%	77.8%	12.1%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP of HK\$0.155

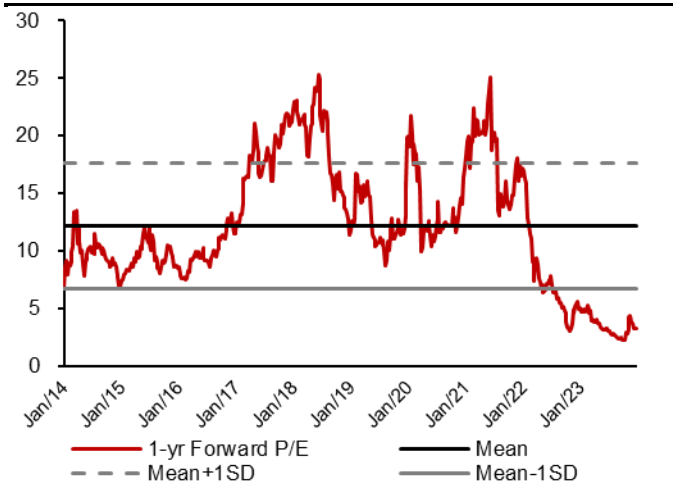
Our new TP of HK\$0.155 is based on the same 6.0x FY24E P/E. We think the stock's current valuation of 7.1x/4.0x FY23E/24E P/E is fairly attractive (well below 1SD below hist. P/E), as we expect earnings recovery and new business ramp-up in FY24-25E.

**Figure 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
<b>HK-listed</b>												
Tongda	698 HK	BUY	128	0.10	0.15	46%	7.1	4.0	0.1	0.1	1.8	3.2
BYDE	285 HK	BUY	10,559	36.60	44.2	21%	18.7	14.9	2.5	2.2	13.6	15.1
Ju Teng	3336 HK	NR	180	1.17	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	617	0.61	NA	NA	-	-	-	-	-	-
<b>Average</b>							<b>12.8</b>	<b>9.4</b>	<b>1.3</b>	<b>1.2</b>	<b>7.8</b>	<b>9.2</b>
<b>China-listed</b>												
Everwin	300115 CH	NR	2,243	13.25	NA	NA	61.1	22.2	2.7	2.5	2.9	9.6
Janus	300083 CH	NR	1,492	6.33	NA	NA	33.5	21.2	2.2	2.0	6.2	9.0
<b>Average</b>							<b>47.3</b>	<b>21.7</b>	<b>2.4</b>	<b>2.2</b>	<b>4.6</b>	<b>9.3</b>
<b>Overseas-listed</b>												
Foxconn	2354 TT	NR	2,456	53.10	NA	NA	12.2	9.8	0.5	0.5	5.8	7.0
Catcher	2474 TT	NR	4,316	194.00	NA	NA	11.9	17.9	0.8	0.8	6.8	4.3
<b>Average</b>							<b>12.0</b>	<b>13.9</b>	<b>0.6</b>	<b>0.6</b>	<b>6.3</b>	<b>5.7</b>

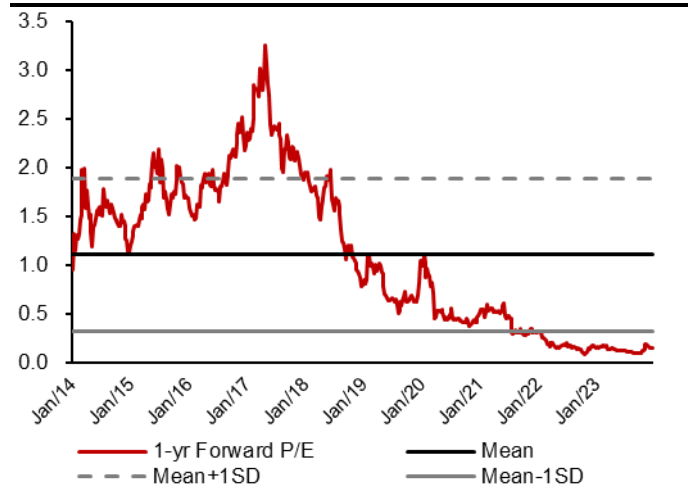
Source: Bloomberg, CMBIGM estimates

**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	6,766	6,215	6,458
Cost of goods sold	(8,048)	(7,930)	(6,167)	(5,453)	(5,108)	(5,295)
<b>Gross profit</b>	<b>1,710</b>	<b>1,503</b>	<b>1,392</b>	<b>1,312</b>	<b>1,107</b>	<b>1,162</b>
<b>Operating expenses</b>	<b>(1,186)</b>	<b>(1,163)</b>	<b>(1,175)</b>	<b>(1,081)</b>	<b>(827)</b>	<b>(846)</b>
Selling expense	(136)	(57)	(53)	(50)	(37)	(39)
Admin expense	(1,050)	(1,106)	(1,122)	(1,031)	(790)	(807)
SG&A expense	0	0	0	0	0	0
Others	(22)	(32)	(62)	(27)	(37)	(39)
<b>Operating profit</b>	<b>502</b>	<b>308</b>	<b>557</b>	<b>204</b>	<b>243</b>	<b>278</b>
<b>EBITDA</b>	<b>1,121</b>	<b>375</b>	<b>1,514</b>	<b>1,216</b>	<b>1,309</b>	<b>1,399</b>
Other income/expense	102	69	71	147	90	89
Others	(175)	(74)	(138)	(138)	(50)	(50)
<b>Pre-tax profit</b>	<b>430</b>	<b>303</b>	<b>491</b>	<b>213</b>	<b>282</b>	<b>317</b>
Income tax	(70)	(51)	(67)	(28)	(26)	(30)
Minority interest	8	15	14	15	5	5
<b>Net profit</b>	<b>351</b>	<b>228</b>	<b>137</b>	<b>141</b>	<b>251</b>	<b>281</b>
<b>Adjusted net profit</b>	<b>351</b>	<b>228</b>	<b>137</b>	<b>141</b>	<b>251</b>	<b>281</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
<b>Current assets</b>	<b>7,658</b>	<b>9,354</b>	<b>7,993</b>	<b>7,898</b>	<b>9,972</b>	<b>9,753</b>
Cash & equivalents	1,353	1,366	1,195	653	2,364	1,839
Account receivables	2,993	3,317	2,159	2,366	1,791	2,529
Inventories	2,204	3,177	2,351	2,278	2,093	2,175
Prepayment	486	523	653	653	653	653
Other current assets	622	971	1,634	1,634	1,634	1,634
<b>Non-current assets</b>	<b>6,642</b>	<b>7,402</b>	<b>6,236</b>	<b>6,526</b>	<b>6,060</b>	<b>5,539</b>
PP&E	5,824	6,658	5,598	5,888	5,422	4,901
Other non-current assets	818	744	638	638	638	638
<b>Total assets</b>	<b>14,300</b>	<b>16,755</b>	<b>14,229</b>	<b>14,425</b>	<b>16,032</b>	<b>15,292</b>
<b>Current liabilities</b>	<b>6,212</b>	<b>7,720</b>	<b>5,444</b>	<b>5,765</b>	<b>6,844</b>	<b>6,310</b>
Short-term borrowings	2,228	2,931	1,928	2,783	2,865	2,957
Account payables	3,207	3,772	2,531	1,648	2,266	1,791
Other current liabilities	777	1,016	986	1,161	980	1,295
<b>Non-current liabilities</b>	<b>1,422</b>	<b>814</b>	<b>1,154</b>	<b>1,167</b>	<b>1,185</b>	<b>1,205</b>
Long-term borrowings	1,300	639	1,051	1,064	1,082	1,102
Other non-current liabilities	123	175	103	103	103	103
<b>Total liabilities</b>	<b>7,634</b>	<b>8,534</b>	<b>6,598</b>	<b>6,932</b>	<b>8,029</b>	<b>7,515</b>
Share capital	65	97	97	97	97	97
Other reserves	6,553	8,063	7,466	7,623	7,847	8,099
<b>Total shareholders equity</b>	<b>6,666</b>	<b>8,221</b>	<b>7,631</b>	<b>7,805</b>	<b>8,035</b>	<b>8,293</b>
Minority interest	49	61	68	84	88	94
<b>Total equity and liabilities</b>	<b>14,300</b>	<b>16,755</b>	<b>14,229</b>	<b>14,737</b>	<b>16,064</b>	<b>15,808</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	430	303	491	213	282	317
Depreciation & amortization	619	67	957	1,012	1,067	1,121
Change in working capital	253	(731)	279	(1,017)	1,379	(1,294)
Others	96	769	(85)	(29)	84	(198)
<b>Net cash from operations</b>	<b>1,397</b>	<b>408</b>	<b>1,642</b>	<b>180</b>	<b>2,278</b>	<b>8</b>
<b>Investing</b>						
Capital expenditure	(1,176)	(900)	(600)	(600)	(600)	(600)
Others	318	(320)	18	16	8	31
<b>Net cash from investing</b>	<b>(858)</b>	<b>(1,220)</b>	<b>(582)</b>	<b>(584)</b>	<b>(592)</b>	<b>(569)</b>
<b>Financing</b>						
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
<b>Net cash from financing</b>	<b>(331)</b>	<b>696</b>	<b>(256)</b>	<b>(0)</b>	<b>24</b>	<b>36</b>
<b>Net change in cash</b>						
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
<b>Cash at the end of the year</b>	<b>1,353</b>	<b>1,366</b>	<b>1,271</b>	<b>653</b>	<b>2,364</b>	<b>1,839</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	6.2%	(3.3%)	(19.9%)	(10.5%)	(8.1%)	3.9%
Gross profit	2.0%	(12.1%)	(7.4%)	(5.7%)	(15.7%)	5.0%
Operating profit	(14.3%)	(38.7%)	80.8%	(63.4%)	18.9%	14.4%
EBITDA	6.4%	(66.6%)	303.9%	(19.7%)	7.7%	6.8%
Net profit	(12.5%)	(35.1%)	(39.8%)	2.8%	77.8%	12.1%
Adj. net profit	(12.5%)	(35.1%)	(39.8%)	2.8%	77.8%	12.1%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	17.5%	15.9%	18.4%	19.4%	17.8%	18.0%
Operating margin	5.1%	3.3%	7.4%	3.0%	3.9%	4.3%
EBITDA margin	11.5%	4.0%	20.0%	18.0%	21.1%	21.7%
Adj. net profit margin	3.6%	2.4%	1.8%	2.1%	4.0%	4.4%
Return on equity (ROE)	5.6%	3.1%	1.7%	1.8%	3.2%	3.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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	154.9	156.2	147.1
Payable turnover days	139.6	160.6	139.8	139.8	139.8	139.8
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	10.0	13.8	9.8	7.1	4.0	3.6
P/B	0.5	0.4	0.2	0.1	0.1	0.1
Div yield (%)	0.1	0.0	0.0	7.6	7.6	7.6

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

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