

Tongda Group (698 HK)

Not immune from COVID-19 impact; D/G to HOLD

We downgrade Tongda to HOLD (from Buy) and cut TP to HK\$0.53 as we trimmed FY20/21E EPS by 48%/48% to reflect FY19 results miss, ASP/margin pressure and weaker Apple demand amid COVID-19 outbreak. Our TP is based on lower 7x FY20E P/E (vs 8x prev.) for slower earnings growth and order uncertainties. Our FY20E/21E EPS is 40%/44% below consensus. In longer term, we believe Tongda will benefit glastic adoption, 5G iPhone recovery and IoT opportunities in 2021, but it is too early to bottom fish now.

- **Results miss due to margin pressure from casings/iPhone segments.** Tongda's FY19 revenue grew 3% YoY to HK\$9.2bn, largely in-line with expectations, while net profit declined 26% YoY to HK\$402, 38%/33% below our/consensus estimates. The miss was mainly due to margin pressure in 2.5D glastic/metal casing and limited upgrade in iPhone components.
- **Conservative guidance on more glastic casing competition.** Despite rapid adoption of glastic casings in Android smartphones (esp. Samsung, Vivo), mgmt. stated that intense competition over 2.5D glastic casing will lead to Tongda's shifting focus to 3D/unibody glastic with better pricing (US\$3.6/6, vs \$2.4 for 2.5D). Mgmt. expected to ship 160mn casing in 2020 (vs 140mn in 2019) with 2.5D/3D/unibody glastic accounting for 15mn/70mn/50mn, and gross margin will stabilise in 2020 due to better yield and scale. We estimate glastic revenue to grow 38%/3% in FY20/21E, accounting for 60%/60% of FY19/20E sales. We expect top 4 clients will be Samsung, Apple, Xiaomi and Vivo in 2020.
- **iPhone: Expect flattish revenue in FY20E and IoT expansion in FY21E.** While we expect revenue from iPhone segment to remain flattish in FY20E due to slower iPhone sales on COVID-19 impact, we are positive on Tongda's product roadmap to focus on Apple's IoT categories (e.g. Watch/Airpod/AR wearables) in FY21E onwards. We estimate this segment will grow 2%/31% YoY in FY20/E21E.
- **Earnings to recover in 2020 but outlook remains cloudy.** We downgrade the stock to Hold as we cut FY20/21E EPS by 48%/48% to factor in casings ASP pressure and iPhone uncertainties due to COVID-19. We lowered TP HK\$0.53 (from HK\$1.15) based on lower 7x FY20E P/E (from 8x prev.) given lower earnings visibility and sector de-rating on demand uncertainties. We recommend to wait for better entry point before new products start to ramp.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	8,899	9,186	9,754	10,215	10,847
YoY growth (%)	3.9	3.2	6.2	4.7	6.2
Net income (HK\$ mn)	543	402	488	565	630
EPS (HK\$)	0.09	0.06	0.08	0.09	0.10
YoY growth (%)	(48.2)	(29.3)	21.5	15.9	11.5
Consensus EPS (RMB)	NA	0.10	0.13	0.16	NA
P/E (x)	5.5	7.8	6.4	5.6	5.0
P/B (x)	0.5	0.5	0.5	0.4	0.4
Yield (%)	1.6	0.1	0.1	0.1	0.2
ROE (%)	9	6.7	7.5	8.0	8.2
Net gearing (%)	57	45	51	38	40

Source: Company data, CMBIS

HOLD (Down)

Target Price	HK\$0.53
(Previous TP	HK\$1.15)
Upside	+9%
Current Price	HK\$0.49

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	3,143
Avg 3 mths t/o (HK\$ mn)	53.20
52w High/Low (HK\$)	1.08/0.46
Total Issued Shares (mn)	6,480
Source: Bloomberg	

Shareholding Structure

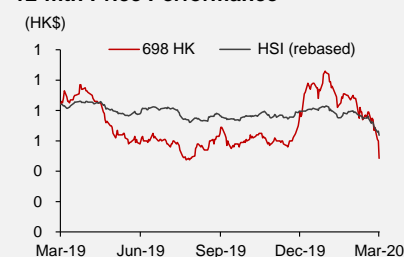
Landmark Worldwide	24.44%
Ya Nan Wang	11.68%
Mondrian Investment	4.73%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-33.3%	-19.9%
3-mth	-18.9%	-3.0%
6-mth	-7.7%	6.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports:

1. Tongda (698 HK) – Buy ahead of strong Apple and 5G recovery – 24 Dec 2019
2. Tongda (698 HK) – Worst is over; back to growth mode – 28 Oct 2019
3. Tongda (698 HK) – 1H19 preview – 12 Aug 2019

Earnings Revision

Figure 1: FY19 results review

HK\$ mn	FY18A	FY19A	YoY	CMBI		Consensus	
				FY19E	Diff (%)	FY19E	Diff (%)
Revenue	8,899	9,186	3%	9,047	2%	9,031	2%
Gross profit	1,794	1,677	-7%	1,880	-11%	1,783	-6%
Operating profit	735	586	-20%	930	-37%	882	-34%
Net profit	543	402	-26%	648	-38%	597	-33%
EPS (HK\$)	0.09	0.06	-29%	0.10	-38%	0.10	-38%
Gross margin	20.2%	18.8%	-1.3 ppt	20.8%	-1.9 ppt	19.7%	-0.9 ppt
Operating margin	8.3%	6.6%	-1.7 ppt	10.3%	-3.7 ppt	9.8%	-3.2 ppt
Net margin	6.1%	4.5%	-1.6 ppt	7.2%	-2.7 ppt	6.6%	-2.1 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

(HK\$ mn)	New		Old		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	9,754	10,215	11,045	12,202	-12%	-16%
Gross profit	1,857	2,004	2,448	2,718	-24%	-26%
Operating profit	676	759	1,235	1,372	-45%	-45%
Net profit	488	565	933	1,086	-48%	-48%
EPS (HK\$)	0.08	0.09	0.14	0.17	-48%	-48%
Gross margin	19.0%	19.6%	22.2%	22.3%	-3.1 ppt	-2.7 ppt
Operating margin	6.9%	7.4%	11.2%	11.2%	-4.2 ppt	-3.8 ppt
Net Margin	5.0%	5.5%	8.4%	8.9%	-3.4 ppt	-3.4 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBI estimates vs consensus

(HK\$ mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	9,754	10,215	10,668	11,949	-9%	-15%
Gross profit	1,857	2,004	2,188	2,502	-15%	-20%
Operating profit	676	759	1,135	1,340	-40%	-43%
Net profit	488	565	786	971	-38%	-42%
EPS (HK\$)	0.08	0.09	0.13	0.16	-40%	-44%
Gross margin	19.0%	19.6%	20.5%	20.9%	-1.5 ppt	-1.3 ppt
Operating margin	6.9%	7.4%	10.6%	11.2%	-3.7 ppt	-3.8 ppt
Net Margin	5.0%	5.5%	7.4%	8.1%	-2.4 ppt	-2.6 ppt

Source: Company data, CMBIS estimates

Figure 4: Revenue breakdown

HK\$ mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Handsets	6,621	2,856	4,264	7,120	2,520	5,116	7,636	7,950	8,422
...YoY	12%	-1%	14%	8%	-12%	20%	7%	4%	6%
Metal	2,786	562	1,018	1,579	316	737	1,053	702	702
...YoY	-42%	-62%	-23%	-43%	-44%	-28%	-33%	-33%	0%
Glastic	2,145	1,193	2,122	3,315	1,376	3,210	4,586	4,730	4,804
...YoY	538%	14%	94%	55%	15%	51%	38%	3%	2%
Glass	207	328	164	491	70	164	234	204	204
...YoY	14702%	180%	82%	137%	-79%	0%	-52%	-13%	0%
Apple	849	774	961	627	758	1,005	627	646	665
...YoY	92%	202%	-22%	17%	-2%	5%	2%	31%	17%
Electrical appliances	849	343	285	627	343	285	627	646	665
...YoY	-2%	-32%	-17%	-26%	0%	0%	0%	3%	3%
Notebook computers	83	-	-	-	-	-	-	-	-
...YoY	-88%	-	-	-	-	-	-	-	-
Household goods	607	328	320	648	344	336	681	749	824
...YoY	21%	-8%	28%	7%	5%	5%	5%	10%	10%
Network communications	739	382	408	791	348	462	810	871	936
...YoY	5%	23%	-5%	7%	-9%	13%	2%	7%	8%
Total	8,899	3,909	5,277	9,186	3,555	6,199	9,754	10,215	10,847
...YoY	4%	-6%	11%	3%	-9%	17%	6%	5%	6%

Source: Company data, CMBIS estimates

Figure 5: P&L forecast

HK\$ mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	8,899	3,909	5,277	9,186	3,555	6,199	9,754	10,215	10,847
...YoY	3.9%	-5.8%	11.1%	3.2%	-9.1%	17.5%	6.2%	4.7%	6.2%
Cost of sales	(7,105)	(3,083)	(4,426)	(7,509)	(2,913)	(4,984)	(7,897)	(8,211)	(8,677)
Gross profit	1,794	826	851	1,677	642	1,215	1,857	2,004	2,169
GPM (%)	20.2%	21.1%	16.1%	18.3%	18.1%	19.6%	19.0%	19.6%	20.0%
...YoY	-19.6%	-13.9%	1.9%	-6.5%	-22.2%	42.8%	10.8%	7.9%	8.2%
 Selling Exp	 (129)	 (59)	 (75)	 (133)	 (53)	 (87)	 (140)	 (141)	 (149)
...% of rev	-1.4%	-1.5%	-1.4%	-1.5%	-1.5%	-1.4%	-1.4%	-1.4%	-1.4%
R&D	(409)	(171)	(241)	(412)	(160)	(279)	(439)	(470)	(499)
...% of rev	-4.6%	-4.4%	-4.6%	-4.5%	-4.5%	-4.5%	-4.5%	-4.6%	-4.6%
Operating profit	735	415	172	586	230	447	676	759	847
OPM (%)	8.3%	10.6%	3.3%	6.4%	6.5%	7.2%	6.9%	7.4%	7.8%
...YoY	-40.7%	-23.5%	-11.0%	-20.2%	-44.6%	160.1%	15.3%	12.2%	11.6%
 Net profit	 543	 316	 86	 402	 143	 345	 488	 565	 630
NPM (%)	6.1%	8.1%	1.6%	4.4%	4.0%	5.6%	5.0%	5.5%	5.8%
...YoY	-46.0%	-24.6%	-30.8%	-26.0%	-54.9%	302.7%	21.5%	15.9%	11.5%

Source: Company data, CMBIS estimates

Valuation

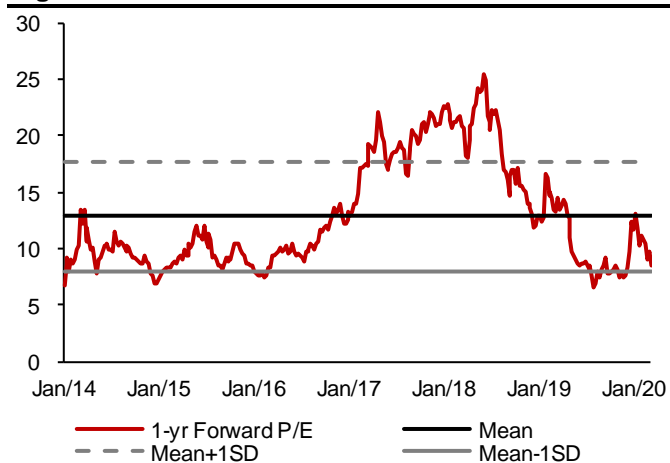
Downgrade to Hold and trimmed TP to HK\$0.53

We cut our FY20/21E EPS by 48%/48% and lowered our 12m TP to HK\$0.53, based on 7x FY20E P/E (from 8x P/E), on par with 1-sd below historical average P/E. Given lower earnings visibility and sector de-rating on demand uncertainties, we recommend to wait for better entry point before new products start to ramp.

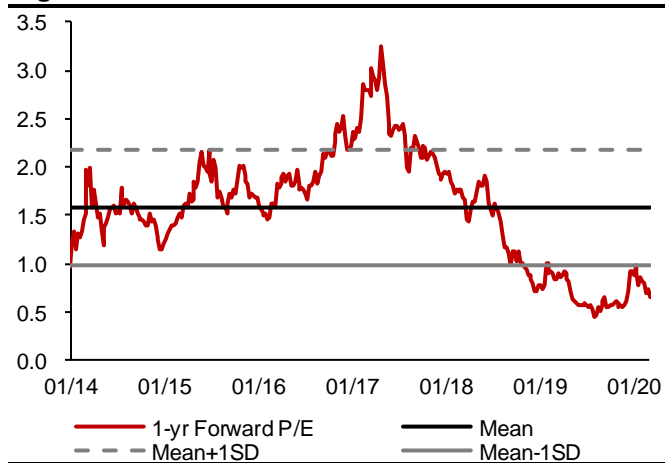
Figure 6: Peers valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HK-listed												
Tongda	698 HK	Hold	405	0.49	0.53	9%	6.4	5.6	0.5	0.4	7.5	8.0
BYDE	285 HK	Buy	3,110	10.72	18.4	72%	14.6	9.9	1.3	1.2	8.7	11.6
Ju Teng	3336 HK	NR	221	1.47	NA	NA	6.0	22.6	0.3	0.3	4.1	1.3
FIH	2038 HK	NR	908	0.86	NA	NA	6.9	6.5	0.5	0.4	5.6	6.6
Average							7.8	10.6	0.6	0.6	7.5	8.1
China-listed												
Everwin	300115 CH	NR	2,533	19.55	NA	NA	27.5	19.4	3.5	3.1	12.6	15.1
Janu	300083 CH	NR	1,161	5.70	NA	NA	-	-	-	-	-	-
Average							27.5	19.4	3.5	3.1	12.6	15.1
Overseas-listed												
Foxconn	2354 TT	NR	2,337	50.00	NA	NA	8.5	8.1	0.7	0.6	8.2	8.0
Casetek	5264 TT	NR	481	34.65	NA	NA	15.6	11.5	0.5	0.4	2.8	3.6
Catcher	2474 TT	NR	4,887	192.00	NA	NA	8.3	7.0	0.9	0.8	11.9	13.1
Average							10.8	8.9	0.7	0.6	7.6	8.2

Source: Bloomberg, CMBIS estimates

Figure 7: 12M forward P/E band

Source: Company data, CMBIS estimates

Figure 8: 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	9,754	10,215	10,847
COGS	(7,105)	(7,509)	(7,897)	(8,211)	(8,677)
Gross profit	1,794	1,677	1,857	2,004	2,169
Selling and marketing	(129)	(133)	(140)	(141)	(149)
Administrative	(875)	(946)	(975)	(1,032)	(1,096)
R&D					
Other operating exp.	(55)	(11)	(66)	(73)	(77)
Operating profit	735	586	676	759	847
Financial cost	(174)	(207)	(169)	(183)	(199)
Other income/(loss)	115	105	78	102	108
Pre-tax profit	676	485	586	679	757
Tax	(113)	(84)	(88)	(102)	(114)
Minority interest	20	(1)	10	12	13
Net profit	543	402	488	565	630

Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	676	485	586	679	757
Depreciation	390	761	497	547	598
Change in working capital	(19)	775	(717)	395	(732)
Others	(9)	(507)	(102)	(112)	(136)
Net cash from operating	1,038	1,514	263	1,509	487
Capex	(911)	(1,000)	(900)	(900)	(900)
Other	(631)	327	14	10	23
Net cash from investing	(1,542)	(673)	(886)	(890)	(877)
Net borrowings	947	(402)	310	359	400
Dividend paid	(35)	(3)	(4)	(5)	(5)
Share issue/(repurchase)	-	0	0	0	0
Other	(356)	(85)	0	0	0
Net cash from financing	556	(490)	306	354	395
Net change in cash	52	351	(317)	973	4
Cash at beginning of the year	792	768	1,078	761	1,734
Exchange difference	(76)	(42)	0	0	0
Cash at the end of the year	768	1,078	761	1,734	1,738

Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	7,720	7,464	7,830	8,676	9,491
Cash & equivalents	768	1,078	761	1,734	1,738
Account receivables	3,115	2,946	3,490	3,250	3,906
Inventories	2,529	2,245	2,384	2,496	2,651
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				
Investment property	68				
Long-term deposits	626	531	531	531	531
Other non-current assets	116	489	489	489	489
Total assets	13,642	13,573	14,342	15,541	16,658
Current liabilities	5,888	6,344	6,527	7,047	7,406
ST borrowings	2,455	2,633	2,850	3,102	3,383
Account payables	2,626	2,948	2,914	3,181	3,260
Other current liabilities	807	763	763	763	763
Non-current liabilities	1,817	1,247	1,339	1,446	1,565
LT borrowings	1,697	1,117	1,210	1,316	1,436
Other non-current liabilities	120	129	129	129	129
Total liabilities	7,705	7,591	7,866	8,492	8,971
Share capital	65	65	65	65	65
Reserves	5,898	5,881	6,365	6,926	7,551
Minority interest	(26)	36	46	58	71
Shareholders' equity	5,937	5,982	6,476	7,049	7,687
Total equity and liabilities	13,642	13,573	14,342	15,541	16,658

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Handsets	74	75	77	75	75
Electrical Appliances	10	7	6	6	6
Notebook Computers	1	0	0	0	0
Ironware parts	7	7	6	6	6
Network commu.	8	11	12	13	13
Growth (%)					
Revenue	3.9	1.7	22.1	10.5	10.5
Gross profit	(19.6)	4.8	69.7	74.3	74.3
Operating profit	(40.7)	26.5	32.8	11.1	11.1
Net profit	(46.0)	19.4	43.9	16.4	16.4
Profit & loss ratio (%)					
Gross margin	20	20.8	22.2	22.3	22.3
Operating margin	8	10.3	11.2	11.2	11.2
Net profit margin	6	7.2	8.4	8.9	8.9
Balance sheet ratio					
Net debt/total equity (x)	0.6	0.6	0.6	0.6	0.6
Current ratio (x)	1.3	1.3	1.3	1.4	1.4
Receivable turnover days	144	144	144	144	144
Inventory turnover days	134	130	121	127	127
Payable turnover days	138	138	138	138	138
Profitability (%)					
ROE	9.1	10.0	12.9	13.4	13.4
ROA	4.0	4.4	5.5	6.0	6.0
Per share data (HK\$)					
EPS	0.09	0.100	0.144	0.168	0.168
DPS	0.02	0.02	0.03	0.03	0.03

Source: Company data, CMBIS estimates

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