

# Tongda Group (698 HK)

## Worst is over; Back to the growth mode

**SUMMARY.** Tongda's 1H19 weakness with revenue/NP decline of 6%/25% YoY was largely anticipated. Net profit was 14% above consensus given better GPM but 13% below our estimates on finance cost. Following NP decline in 2H18/1H19, we estimate strong earnings growth of 240%/33% in 2H19/20E, driven by strong glastic demand from Samsung and improving GPM on low base in 2H18. After hosting HK NDRs yesterday, we are now more confident on earnings recovery, and raised our TP to HK\$0.91 (62% upside), based on 6x FY20E P/E (from 5x for better outlook/earnings visibility).

- **Weak 1H19 expected given metal pressure and biz restructuring.** We believe Tongda's weak revenue of -6% YoY is largely in-line, in view of 1) casing segment (73% of sales) decline of 1.3% given sluggish smartphone market, 2) appliances/household & sports segments slumped by 32.3%/8.1% YoY due to biz restructuring, 3) spin-off of notebook biz, and 4) continued GPM pressure on weak metal casing.
- **Major beneficiary of Glastic casing demand.** Mgmt. estimated glastic TAM of 200mn/300-400mn in FY19/20E given rapid adoption from major OEMs (esp. Samsung). As early mover in glastic market, Tongda is poised to become largest glastic supplier for Samsung's mid-end models (A-series) in FY19E. Mgmt. guided 140mn/180-200mn casing shipment in FY19/20E (glastic: 100mn/150mn), driven by Samsung's order win and new client (Vivo) in 2H19E. We estimate glastic revenue to grow 56%/39% in FY19/20E, accounting for 49%/54% of FY19/20E sales.
- **iPhone share/content growth in 2019; Watch/Airpod order win in 2020.** We expect Apple revenue to grow 17%/29% YoY in FY19/20E (19%/20% of sales), backed by 1) content growth in 5G iPhone, 2) penetration into Watch and AirPods, and 2) share gain to 40% in iPhone waterproof (vs 30-35% in FY18).
- **Earnings turnaround in 2H19E; Lifted TP to HK\$0.91 (62% upside).** We are positive on Tongda's recovery with 30%/33% YoY EPS growth in FY19/20E. We adjusted FY19/20/21E NP by -8% /+4%/-1%, and raised our TP by 20% to HK\$0.91 based on 6x FY20E P/E (from 5x) given stronger outlook and earnings visibility. Upcoming catalysts include Samsung product launch and China 5G rollout.

### Earnings Summary

| (YE 31 Dec)          | FY17A | FY18A  | FY19E | FY20E  | FY21E  |
|----------------------|-------|--------|-------|--------|--------|
| Revenue (HK\$ mn)    | 8,563 | 8,899  | 9,047 | 11,185 | 12,319 |
| YoY growth (%)       | 9.4   | 3.9    | 1.7   | 23.6   | 10.1   |
| Net income (HK\$ mn) | 1,006 | 543    | 736   | 982    | 1,128  |
| EPS (HK\$)           | 0.17  | 0.09   | 0.11  | 0.15   | 0.17   |
| YoY growth (%)       | (3.3) | (48.2) | 29.7  | 33.4   | 14.9   |
| P/E (x)              | 3.3   | 6.4    | 4.9   | 3.7    | 3.2    |
| P/B (x)              | 0.5   | 0.5    | 0.5   | 0.5    | 0.4    |
| Yield (%)            | 5.9   | 3.6    | 4.1   | 5.4    | 6.2    |
| ROE (%)              | 17    | 9      | 11.3  | 13.4   | 14     |
| Net gearing (%)      | 46    | 57     | 63    | 57     | 55     |

Source: Company data, CMBIS

### BUY (Maintain)

|               |           |
|---------------|-----------|
| Target Price  | HK\$0.91  |
| (Previous TP  | HK\$0.76) |
| Upside        | +62.0%    |
| Current Price | HK\$0.56  |

### China Technology Sector

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#### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 3,629     |
| Avg 3 mths t/o (HK\$ mn) | 12.58     |
| 52w High/Low (HK\$)      | 1.47/0.46 |
| Total Issued Shares (mn) | 6,479.5   |
| Source: Bloomberg        |           |

#### Shareholding Structure

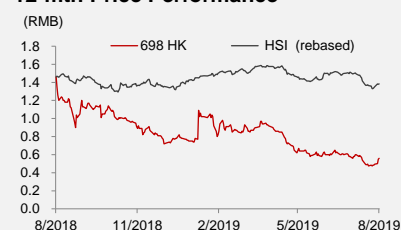
|                     |        |
|---------------------|--------|
| Landmark Worldwide  | 24.44% |
| Ya Nan Wang         | 11.30% |
| Mondrian Investment | 4.73%  |
| Source: HKEx        |        |

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -3.4%    | 5.7%     |
| 3-mth | -12.5%   | -7.9%    |
| 6-mth | -34.9%   | -29.0%   |

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

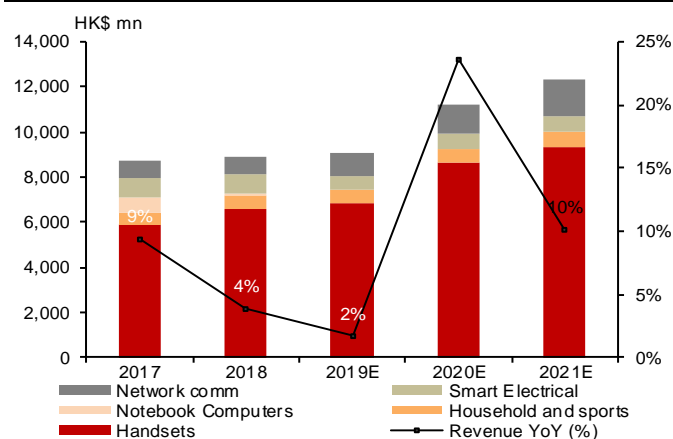
#### Auditor: Ernst & Young

#### Related Reports:

Tongda (698 HK) – 1H19 preview – 12 Aug 2019

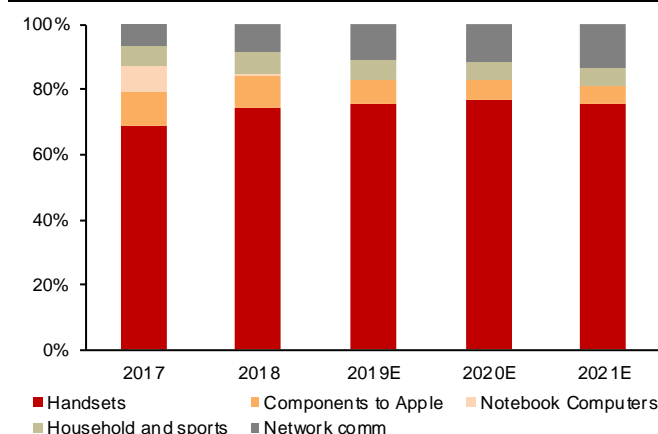
## Focus Charts

Figure 1: Revenue trend



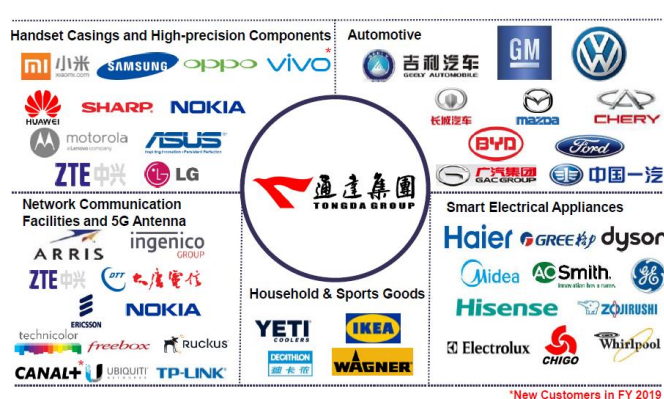
Source: Company data, CMBIS estimates

Figure 2: Revenue mix



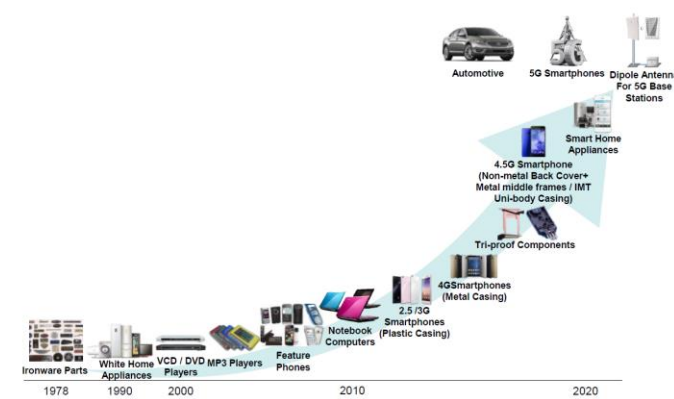
Source: Company data, CMBIS estimates

Figure 3: Diversified customer portfolio



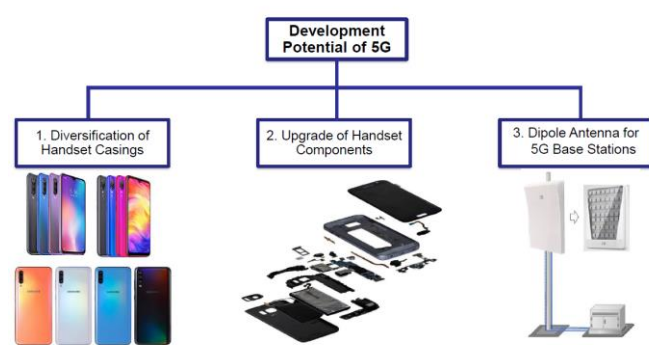
Source: Company data, CMBIS estimates

Figure 4: Development milestone



Source: Company data, CMBIS estimates

Figure 5: 5G development focus



Source: Company data, CMBIS estimates

Figure 6: Automotive products



Source: Internet Info Agency

Source: Company data, CMBIS estimates

## Earnings Revision

Figure 7: 1H19 results review

| HK\$ mn          | 1H18  | 2H18  | 1H19  | YoY      | CMBI  |          | Consensus |          |
|------------------|-------|-------|-------|----------|-------|----------|-----------|----------|
|                  |       |       |       |          | 1H19E | Diff (%) | 1H19E     | Diff (%) |
| Revenue          | 4,150 | 4,749 | 3,909 | -6%      | 4,045 | -3%      | 3,874     | 1%       |
| Gross profit     | 959   | 835   | 826   | -14%     | 841   | -2%      | 764       | 8%       |
| Operating profit | 542   | 193   | 415   | -23%     | 471   | -12%     | 362       | 15%      |
| Net profit       | 419   | 124   | 316   | -25%     | 363   | -13%     | 276       | 14%      |
| Gross margin     | 23.1% | 17.6% | 21.1% | -2 ppt   | 20.8% | 0.3 ppt  | 19.7%     | 1.4 ppt  |
| Operating margin | 13.1% | 4.1%  | 10.6% | -2.5 ppt | 11.6% | -1 ppt   | 9.3%      | 1.3 ppt  |
| Net margin       | 10.1% | 2.6%  | 8.1%  | -2 ppt   | 9.0%  | -0.9 ppt | 7.1%      | 0.9 ppt  |

Source: Company data, Bloomberg, CMBIS estimates

Figure 8: Earnings revision

| HK\$ mn          | New   |        |        | Old   |        |        | Change (%) |          |          |
|------------------|-------|--------|--------|-------|--------|--------|------------|----------|----------|
|                  | FY19E | FY20E  | FY21E  | FY19E | FY20E  | FY21E  | FY19E      | FY20E    | FY21E    |
| Revenue          | 9,047 | 11,185 | 12,319 | 9,440 | 10,683 | 11,924 | -4%        | 5%       | 3%       |
| Gross Profit     | 1,889 | 2,439  | 2,748  | 1,965 | 2,299  | 2,673  | -4%        | 6%       | 3%       |
| Operating Profit | 938   | 1,239  | 1,425  | 1,045 | 1,220  | 1,468  | -10%       | 2%       | -3%      |
| Net profit       | 736   | 982    | 1,128  | 800   | 942    | 1,143  | -8%        | 4%       | -1%      |
| EPS (HK\$)       | 0.11  | 0.15   | 0.17   | 0.13  | 0.15   | 0.18   | -12%       | 0%       | -6%      |
| Gross Margin     | 20.9% | 21.8%  | 22.3%  | 20.8% | 21.5%  | 22.4%  | 0.1 ppt    | 0.3 ppt  | -0.1 ppt |
| Operating Margin | 10.4% | 11.1%  | 11.6%  | 11.1% | 11.4%  | 12.3%  | -0.7 ppt   | -0.3 ppt | -0.7 ppt |
| Net Margin       | 8.1%  | 8.8%   | 9.2%   | 8.5%  | 8.8%   | 9.6%   | -0.3 ppt   | 0 ppt    | -0.4 ppt |

Sources: Company data, CMBIS

Figure 9: CMBI estimates vs consensus

| HK\$ mn          | CMBI  |        |        | Consensus |        |        | Diff (%) |          |          |
|------------------|-------|--------|--------|-----------|--------|--------|----------|----------|----------|
|                  | FY19E | FY20E  | FY21E  | FY19E     | FY20E  | FY21E  | FY19E    | FY20E    | FY21E    |
| Revenue          | 9,047 | 11,185 | 12,319 | 9,645     | 10,707 | 12,062 | -6%      | 4%       | 2%       |
| Gross Profit     | 1,889 | 2,439  | 2,748  | 2,055     | 2,338  | 2,679  | -8%      | 4%       | 3%       |
| Operating Profit | 938   | 1,239  | 1,425  | 1,044     | 1,229  | 1,506  | -10%     | 1%       | -5%      |
| Net profit       | 736   | 982    | 1,128  | 757       | 906    | 1,114  | -3%      | 8%       | 1%       |
| EPS (HK\$)       | 0.11  | 0.15   | 0.17   | 0.13      | 0.15   | 0.18   | -14%     | 5%       | -4%      |
| Gross Margin     | 20.9% | 21.8%  | 22.3%  | 21.3%     | 21.8%  | 22.2%  | -0.4 ppt | 0 ppt    | 0.1 ppt  |
| Operating Margin | 10.4% | 11.1%  | 11.6%  | 10.8%     | 11.5%  | 12.5%  | -0.4 ppt | -0.4 ppt | -0.9 ppt |
| Net Margin       | 8.1%  | 8.8%   | 9.2%   | 7.8%      | 8.5%   | 9.2%   | 0.3 ppt  | 0.3 ppt  | -0.1 ppt |

Source: Company data, CMBIS

Figure 10: Revenue breakdown

| HK\$ mn                       | FY17         | 1H18         | 2H18         | FY18         | 1H19         | 2H19E        | FY19E        | FY20E         | FY21E         |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>Handsets</b>               | <b>5,911</b> | <b>2,895</b> | <b>3,726</b> | <b>6,621</b> | <b>2,856</b> | <b>3,953</b> | <b>6,810</b> | <b>8,609</b>  | <b>9,290</b>  |
| ...YoY                        | 10%          | 23%          | 5%           | 12%          | -1%          | 6%           | 3%           | 26%           | 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%          | 29%           | 26%           |
| <b>Electrical appliances</b>  | <b>863</b>   | <b>506</b>   | <b>343</b>   | <b>849</b>   | <b>343</b>   | <b>326</b>   | <b>668</b>   | <b>668</b>    | <b>688</b>    |
| ...YoY                        | 44%          | 32%          | -29%         | -2%          | -32%         | -5%          | -21%         | 0%            | 3%            |
| <b>Notebook computers</b>     | <b>707</b>   | <b>83</b>    | <b>-</b>     | <b>83</b>    |              |              |              |               |               |
| ...YoY                        | 51%          | -66%         | 0%           | -88%         |              |              |              |               |               |
| <b>Household goods</b>        | <b>502</b>   | <b>357</b>   | <b>250</b>   | <b>607</b>   | <b>328</b>   | <b>275</b>   | <b>603</b>   | <b>633</b>    | <b>697</b>    |
| ...YoY                        | -4%          | 33%          | 7%           | 21%          | -8%          | 10%          | -1%          | 5%            | 10%           |
| <b>Network communications</b> | <b>707</b>   | <b>310</b>   | <b>429</b>   | <b>739</b>   | <b>#REF!</b> | <b>584</b>   | <b>966</b>   | <b>1,274</b>  | <b>1,644</b>  |
| ...YoY                        | -18%         | -16%         | 27%          | 5%           | 23%          | 36%          | 31%          | 32%           | 29%           |
| <b>Total</b>                  | <b>8,563</b> | <b>4,150</b> | <b>4,749</b> | <b>8,899</b> | <b>3,909</b> | <b>5,138</b> | <b>9,047</b> | <b>11,185</b> | <b>12,319</b> |
| ...YoY                        | 9%           | 15%          | -4%          | 4%           | -6%          | 8%           | 2%           | 24%           | 10%           |

Source: Company data, CMBIS

Figure 11: P&amp;L forecast

| HK\$ mn                 | FY17         | 1H18         | 2H18         | FY18         | 1H19         | 2H19E        | FY19E        | FY20E         | FY21E         |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>Revenue</b>          | <b>8,563</b> | <b>4,150</b> | <b>4,749</b> | <b>8,899</b> | <b>3,909</b> | <b>5,138</b> | <b>9,047</b> | <b>11,185</b> | <b>12,319</b> |
| ...YoY                  | 9.4%         | 14.7%        | -4.0%        | 3.9%         | -5.8%        | 8.2%         | 1.7%         | 23.6%         | 10.1%         |
| Cost of sales           | (6,332)      | (3,192)      | (3,914)      | (7,105)      | (3,083)      | (4,075)      | (7,158)      | (8,747)       | (9,571)       |
| <b>Gross profit</b>     | <b>2,231</b> | <b>959</b>   | <b>835</b>   | <b>1,794</b> | <b>826</b>   | <b>1,063</b> | <b>1,889</b> | <b>2,439</b>  | <b>2,748</b>  |
| GPM (%)                 | 26.1%        | 23.1%        | 17.6%        | 20.2%        | 21.1%        | 20.7%        | 20.9%        | 21.8%         | 22.3%         |
| ...YoY                  | 18.3%        | 4.3%         | -36.3%       | -19.6%       | -13.9%       | 27.3%        | 5.3%         | 29.1%         | 12.7%         |
| Selling Exp             | (127)        | (76)         | (53)         | (129)        | (59)         | (57)         | (115)        | (142)         | (157)         |
| ...% 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)        | (448)         | (494)         |
| ...% of rev             | -4.3%        | -5.1%        | -3.3%        | -4.2%        | -4.4%        | -3.8%        | -4.1%        | -4.0%         | -4.0%         |
| <b>Operating profit</b> | <b>1239</b>  | <b>542</b>   | <b>193</b>   | <b>735</b>   | <b>415</b>   | <b>524</b>   | <b>938</b>   | <b>1239</b>   | <b>1425</b>   |
| OPM (%)                 | 14.5%        | 13.1%        | 4.1%         | 8.3%         | 10.6%        | 10.2%        | 10.4%        | 11.1%         | 11.6%         |
| ...YoY                  | 5.8%         | 44.5%        | -77.7%       | -40.7%       | -23.5%       | 171.4%       | 27.7%        | 32.0%         | 15.1%         |
| <b>Net profit</b>       | <b>1,006</b> | <b>419</b>   | <b>124</b>   | <b>543</b>   | <b>316</b>   | <b>421</b>   | <b>736</b>   | <b>982</b>    | <b>1,128</b>  |
| NPM (%)                 | 11.7%        | 10.1%        | 2.6%         | 6.1%         | 8.1%         | 8.2%         | 8.1%         | 8.8%          | 9.2%          |
| ...YoY                  | 0.2%         | 44.2%        | -82.7%       | -46.0%       | -24.6%       | 240.1%       | 35.6%        | 33.4%         | 14.9%         |

Source: Company data, CMBIS

## Valuation

### Reiterate BUY and lifted TP at HK\$0.91 (62% upside)

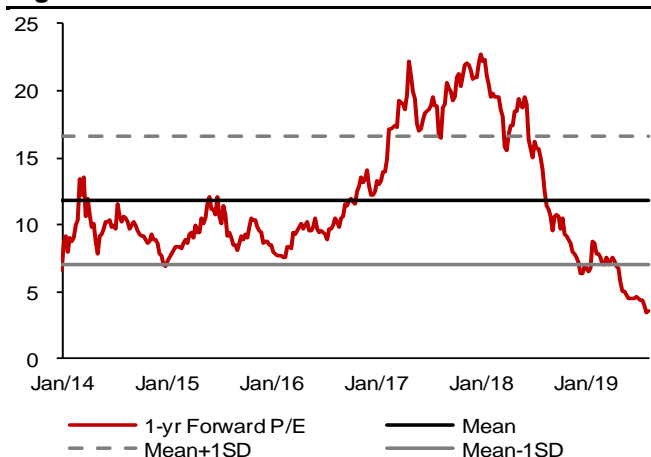
Our new 12m TP of HK\$0.91 is based on 6x FY20E P/E, 17% below 1-sd of historical average P/E of 7.2x. We believe the stock should be re-rated given solid earnings recovery in FY19-21E. Upcoming catalysts include: 1) Samsung's strong demand in glastic casings and potential shipment upside in 2H19E, 2) new content for iPhone in 3Q19E, and 3) 5G-driven casing upgrade to glass/plastic materials in FY20E.

**Figure 12: 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 |
| <b>HK-listed</b>       |           |        |                      |            |         |               |         |       |         |       |         |       |
| Tongda                 | 698 HK    | Buy    | 463                  | 0.56       | 0.91    | 62%           | 4.9     | 3.7   | 0.5     | 0.5   | 22.3    | 13.4  |
| BYDE                   | 285 HK    | Hold   | 3,483                | 12.12      | 11.8    | -3%           | 11.6    | 10.3  | 1.4     | 1.3   | 12.0    | 12.3  |
| Ju Teng                | 3336 HK   | NR     | 265                  | 1.78       | NA      | NA            | 7.2     | 4.7   | 0.3     | 0.3   | 4.4     | 6.5   |
| FIH                    | 2038 HK   | NR     | 953                  | 0.91       | NA      | NA            | -       | -     | 0.5     | 0.5   | (18.5)  | (0.7) |
| Average                |           |        |                      |            |         |               | 7.7     | 6.2   | 0.7     | 0.6   | 2.4     | 7.7   |
| <b>China-listed</b>    |           |        |                      |            |         |               |         |       |         |       |         |       |
| Everwin                | 300115 CH | NR     | 1,642                | 12.75      | NA      | NA            | 32.7    | 22.6  | 2.4     | 2.1   | 7.6     | 10.2  |
| Janu                   | 300083 CH | NR     | 646                  | 3.19       | NA      | NA            | -       | -     | -       | -     | -       | -     |
| Average                |           |        |                      |            |         |               | 32.7    | 22.6  | 2.4     | 2.1   | 7.6     | 10.2  |
| <b>Overseas-listed</b> |           |        |                      |            |         |               |         |       |         |       |         |       |
| Foxconn                | 2354 TT   | NR     | 2,855                | 63.30      | NA      | NA            | 10.8    | 10.3  | 0.7     | 0.7   | 8.0     | 7.9   |
| Casetek                | 5264 TT   | NR     | 711                  | 53.00      | NA      | NA            | 123.5   | 15.3  | 0.7     | 0.7   | 0.7     | 3.8   |
| Catcher                | 2474 TT   | NR     | 5,503                | 224.00     | NA      | NA            | 11.4    | 9.2   | 1.1     | 1.0   | 9.6     | 11.5  |
| Average                |           |        |                      |            |         |               | 48.6    | 11.6  | 0.8     | 0.8   | 6.1     | 7.7   |

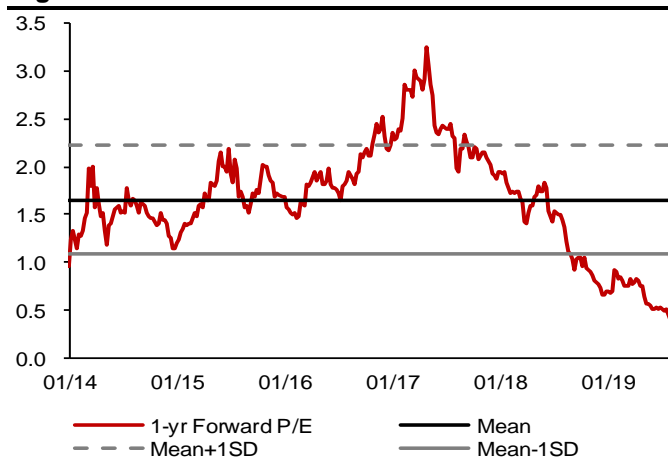
Source: Bloomberg, CMBIS

**Figure 13: 12M forward P/E band**



Source: Company data, CMBIS

**Figure 14: 12M forward P/B band**



Source: Company data, CMBIS

## Financial Summary

### Income statement

| YE 31 Dec (HK\$ mn)     | FY17A        | FY18A        | FY19E        | FY20E         | FY21E         |
|-------------------------|--------------|--------------|--------------|---------------|---------------|
| <b>Revenue</b>          | <b>8,563</b> | <b>8,899</b> | <b>9,047</b> | <b>11,185</b> | <b>12,319</b> |
| COGS                    | (6,332)      | (7,105)      | (7,158)      | (8,747)       | (9,571)       |
| <b>Gross profit</b>     | <b>2,231</b> | <b>1,794</b> | <b>1,889</b> | <b>2,439</b>  | <b>2,748</b>  |
| Selling and marketing   | (127)        | (129)        | (115)        | (142)         | (157)         |
| Administrative          | (844)        | (875)        | (879)        | (1,030)       | (1,135)       |
| R&D                     |              |              |              |               |               |
| Other operating exp.    | (22)         | (55)         | 44           | (28)          | (31)          |
| <b>Operating profit</b> | <b>1,239</b> | <b>735</b>   | <b>938</b>   | <b>1,239</b>  | <b>1,425</b>  |
| Financial cost          | (111)        | (174)        | (187)        | (206)         | (231)         |
| Other income/(loss)     | 127          | 115          | 141          | 145           | 160           |
| <b>Pre-tax profit</b>   | <b>1,256</b> | <b>676</b>   | <b>893</b>   | <b>1,179</b>  | <b>1,355</b>  |
| Tax                     | (197)        | (113)        | (148)        | (177)         | (203)         |
| Minority interest       | 53           | 20           | 9            | 20            | 23            |
| <b>Net profit</b>       | <b>1,006</b> | <b>543</b>   | <b>736</b>   | <b>982</b>    | <b>1,128</b>  |

### Cash flow summary

| YE 31 Dec (HK\$ mn)                | FY17A          | FY18A          | FY19E        | FY20E        | FY21E        |
|------------------------------------|----------------|----------------|--------------|--------------|--------------|
| <b>Profit before taxation</b>      | <b>1,256</b>   | <b>676</b>     | <b>893</b>   | <b>1,179</b> | <b>1,355</b> |
| Depreciation                       | 357            | 390            | 443          | 498          | 554          |
| Change in working capital          | (838)          | (19)           | (764)        | (365)        | (832)        |
| Others                             | (121)          | (9)            | (158)        | (183)        | (216)        |
| <b>Net cash from operating</b>     | <b>654</b>     | <b>1,038</b>   | <b>413</b>   | <b>1,129</b> | <b>860</b>   |
| Capex                              | (1,087)        | (911)          | (1,000)      | (1,000)      | (1,000)      |
| Other                              | (686)          | (631)          | 10           | 6            | 13           |
| <b>Net cash from investing</b>     | <b>(1,772)</b> | <b>(1,542)</b> | <b>(990)</b> | <b>(994)</b> | <b>(987)</b> |
| Net borrowings                     | 1,375          | 947            | 418          | 563          | 647          |
| Dividend paid                      | (291)          | (35)           | (147)        | (196)        | (226)        |
| Share issue/(repurchase)           | -              | -              | 0            | 0            | 0            |
| Other                              | (56)           | (356)          | 0            | 0            | 0            |
| <b>Net cash from financing</b>     | <b>1,028</b>   | <b>556</b>     | <b>271</b>   | <b>367</b>   | <b>422</b>   |
| <b>Net change in cash</b>          | <b>(90)</b>    | <b>52</b>      | <b>(306)</b> | <b>501</b>   | <b>294</b>   |
| Cash at beginning of the year      | 869            | 792            | 768          | 462          | 964          |
| Exchange difference                | 14             | (76)           | 0            | 0            | 0            |
| <b>Cash at the end of the year</b> | <b>792</b>     | <b>768</b>     | <b>462</b>   | <b>964</b>   | <b>1,258</b> |

### Balance sheet

| YE 31 Dec (HK\$ mn)                 | FY17A         | FY18A         | FY19E         | FY20E         | FY21E         |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Current assets</b>               | <b>8,521</b>  | <b>7,720</b>  | <b>8,349</b>  | <b>10,249</b> | <b>10,967</b> |
| Cash & equivalents                  | 792           | 768           | 462           | 964           | 1,258         |
| Account receivables                 | 3,891         | 3,115         | 4,007         | 4,798         | 4,900         |
| Inventories                         | 2,677         | 2,529         | 2,571         | 3,179         | 3,501         |
| Prepayments                         | 514           | 547           | 547           | 547           | 547           |
| Other current assets                | 647           | 761           | 761           | 761           | 761           |
| <b>Non-current assets</b>           | <b>5,103</b>  | <b>5,922</b>  | <b>6,479</b>  | <b>6,981</b>  | <b>7,428</b>  |
| 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           |
| <b>Total assets</b>                 | <b>13,624</b> | <b>13,642</b> | <b>14,828</b> | <b>17,230</b> | <b>18,394</b> |
| <b>Current liabilities</b>          | <b>6,380</b>  | <b>5,888</b>  | <b>6,305</b>  | <b>7,671</b>  | <b>7,645</b>  |
| ST borrowings                       | 2,235         | 2,455         | 2,702         | 3,035         | 3,418         |
| Account payables                    | 2,756         | 2,626         | 2,796         | 3,829         | 3,420         |
| Other current liabilities           | 1,389         | 807           | 807           | 807           | 807           |
| <b>Non-current liabilities</b>      | <b>1,358</b>  | <b>1,817</b>  | <b>1,988</b>  | <b>2,219</b>  | <b>2,483</b>  |
| LT borrowings                       | 1,240         | 1,697         | 1,868         | 2,098         | 2,363         |
| Other non-current liabilities       | 118           | 120           | 120           | 120           | 120           |
| <b>Total liabilities</b>            | <b>7,738</b>  | <b>7,705</b>  | <b>8,293</b>  | <b>9,890</b>  | <b>10,128</b> |
| Share capital                       | 61            | 65            | 65            | 65            | 65            |
| Reserves                            | 5,774         | 5,898         | 6,487         | 7,272         | 8,175         |
| Minority interest                   | 51            | (26)          | (17)          | 3             | 26            |
| <b>Shareholders' equity</b>         | <b>5,885</b>  | <b>5,937</b>  | <b>6,535</b>  | <b>7,340</b>  | <b>8,266</b>  |
| <b>Total equity and liabilities</b> | <b>13,624</b> | <b>13,642</b> | <b>14,828</b> | <b>17,230</b> | <b>18,394</b> |

### Key ratios

| YE 31 Dec                          | FY17A | FY18A  | FY19E | FY20E | FY21E |
|------------------------------------|-------|--------|-------|-------|-------|
| <b>Sales mix (%)</b>               |       |        |       |       |       |
| 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    | 11    | 13    |
| <b>Growth (%)</b>                  |       |        |       |       |       |
| Revenue                            | 9.4   | 3.9    | 1.7   | 23.6  | 10.1  |
| Gross profit                       | 18.3  | (19.6) | 5.3   | 72.1  | 74.3  |
| Operating profit                   | 5.8   | (40.7) | 27.7  | 32.0  | 15.1  |
| Net profit                         | 0.2   | (46.0) | 35.6  | 33.4  | 14.9  |
| <b>Profit &amp; loss ratio (%)</b> |       |        |       |       |       |
| Gross margin                       | 26    | 20     | 20.9  | 21.8  | 22.3  |
| Operating margin                   | 14    | 8      | 10.4  | 11.1  | 11.6  |
| Net profit margin                  | 12    | 6      | 8.1   | 8.8   | 9.2   |
| <b>Balance sheet ratio</b>         |       |        |       |       |       |
| Net debt/total equity (x)          | 0.5   | 0.6    | 0.6   | 0.6   | 0.5   |
| 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   | 120   | 127   |
| Payable turnover days              | 142   | 138    | 138   | 138   | 138   |
| <b>Profitability (%)</b>           |       |        |       |       |       |
| ROE                                | 17.1  | 9.1    | 11.3  | 13.4  | 13.7  |
| ROA                                | 7.4   | 4.0    | 5.0   | 5.7   | 6.1   |
| <b>Per share data (HK\$)</b>       |       |        |       |       |       |
| EPS                                | 0.17  | 0.09   | 0.114 | 0.152 | 0.17  |
| DPS                                | 0.03  | 0.02   | 0.02  | 0.03  | 0.03  |

Source: Company data, CMBIS estimates



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