

Tongda Group (698 HK)

Weak 1H20 in-line; Margin risk remains an overhang

Tongda's 1H20 net profit of 90% YoY decline is in-line with profit warning (85-90% YoY decline) due to slower upgrade and net exchange loss (vs FX gain in 1H19). Looking into 2H20E, we expect intense competition on glastic casing and slower iPhone waterproof upgrade will continue to drag margin in the near term, offsetting Xiaomi/Samsung's recovery and 5G iPhone cycle in 2H20E. We revised up FY20-22E revenue for better Samsung/Xiaomi shipment but lowered GPM by 0.1-9ppt for inferior product mix and intense competition. We maintain Hold on the stock with TP HK\$0.5, based on 7x FY21E P/E.

- 1H20 weakness in-line due to slower upgrade and FX loss.** Tongda's 1H20 net profit decline of 90% YoY is largely in-line with profit warning (85-95% YoY) due to weaker GPM and FX loss, while 1H20 revenue growth of 2% YoY is 11%/5% higher than our/market estimates, thanks to solid casing revenue (+10% YoY) offsetting NB/automobile/household product weakness amid COVID-19 impact. GPM came in at 15.2% (vs 21.1% in 1H19) given slower upgrade of glastic casings and lower margin of iPhone components.
- 2H20E: Xiaomi/Samsung's recovery but margin risk persists.** Despite rapid glastic casings adoption on Xiaomi/Samsung 5G smartphones, mgmt. maintained FY20E shipment of 150mn, which implies 5% YoY decline to 80mn in 2H20E (vs 84mn in 2H19). We estimate 2H20E handset revenue to decline 3% YoY with flattish blended ASP given higher mix of lower-ASP glastic product. In addition, we expect iPhone revenue to remain flattish in FY20E, and product launch delays will drag GPM to 19% in FY20E (vs 22% in FY19). Overall, we estimate 2H20E revenue to decline 4% YoY (vs +2% in 1H20E), and top 3 clients will remain Xiaomi, Apple and Samsung, accounting for 30%/20%/15% of FY20E revenue.
- Maintain Hold with TP HK\$0.5.** We raised FY20-22E revenue given better Samsung/Xiaomi shipment but trimmed GPM by 0.1-9ppt for inferior product mix and intense competition. We maintain Hold with TP HK\$0.50 based on 7x FY21E P/E (1-sd below hist. avg.), given weaker growth visibility and margin downside risks. In the long term, we believe Tongda will benefit from glastic casing adoption, 5G iPhone upcycle and IoT opportunities, but current valuation of 6.5x FY21E P/E is fair in our view, given lack of near-term catalysts.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	8,899	9,186	9,053	9,907	10,195
YoY growth (%)	3.9	3.2	(1.4)	9.4	2.9
Net income (HK\$ mn)	543	402	182	454	512
EPS (HK\$)	0.088	0.062	0.028	0.070	0.08
YoY growth (%)	(48.2)	(29.3)	(54.7)	149.6	12.6
Consensus EPS (HK\$)	NA	0.10	0.07	0.09	0.10
P/E (x)	5.2	7.3	16.2	6.5	5.8
P/B (x)	0.4	0.4	0.5	0.5	0.4
Yield (%)	1.8	0.1	1.3	1.5	1.7
ROE (%)	9	6.7	3.0	6.9	7.3
Net gearing (%)	57	45	53	49	48

Source: Company data, Bloomberg, CMBIS

HOLD (Maintain)

Target Price	HK\$0.50
(Previous TP)	HK\$0.50)
Upside	9%
Current Price	HK\$0.46

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	2,883
Avg 3 mths t/o (HK\$ mn)	13.68
52w High/Low (HK\$)	1.08/ 0.39
Total Issued Shares (mn)	6,480

Source: Bloomberg

Shareholding Structure

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

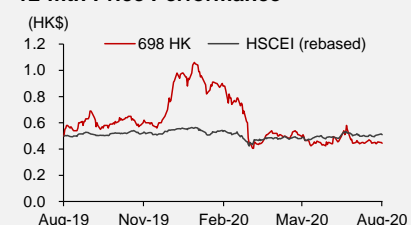
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.0%	-1.1%
3-mth	-9.2%	-13.0%
6-mth	-49.4%	-46.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports:

- Tongda (698 HK) - 1H20 worse than expected; Wait for better visibility - 13 Jul 2020
- Tongda (698 HK) - Not immune from CONV-19 impact; D/G to HOLD - 19 Mar 2020
- Tongda (698 HK) - Buy ahead of strong Apple and 5G recovery - 24 Dec 2019

Earnings Revision

Figure 1: 1H20 results review

YE 31 Dec (HK\$ mn)	1H19	2H19	1H20	YoY	CMBI 1H20E	Diff (%)
Revenue	3,909	5,277	3,990	2%	3,584	11%
Gross profit	826	851	607	-26%	561	8%
Operating profit	415	172	64	-85%	145	-56%
Net profit	316	86	29	-91%	24	23%
EPS (HKD)	0.049	0.013	0.004	-91%	0.004	23%
Gross margin	21.1%	16.1%	15.2%	-5.9 ppt	15.7%	-0.4 ppt
Operating margin	10.6%	3.3%	1.6%	-9 ppt	4.1%	-2.5 ppt
Net margin	8.1%	1.6%	0.7%	-7.4 ppt	0.7%	0.1 ppt

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	9,053	9,907	10,195	7,977	9,387	10,243	13%	6%	0%
Gross profit	1,467	1,776	1,888	1,303	1,747	2,010	13%	2%	-6%
Operating profit	286	610	687	334	631	762	-14%	-3%	-10%
Net profit	182	454	512	142	461	567	28%	-1%	-10%
EPS (HK\$)	0.03	0.07	0.08	0.02	0.07	0.09	28%	-1%	-10%
Gross margin	16.2%	17.9%	18.2%	16.3%	18.6%	19.2%	-0.1 ppt	-0.7 ppt	-1 ppt
Operating margin	3.2%	6.2%	6.4%	4.2%	6.7%	7.3%	-1 ppt	-0.6 ppt	-0.9 ppt
Net Margin	2.0%	4.6%	4.6%	1.8%	4.9%	5.1%	0.2 ppt	-0.3 ppt	-0.5 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBI estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	9,053	9,907	10,195	9,184	10,234	10,904	-1%	-3%	-7%
Gross profit	1,467	1,776	1,888	1,574	1,829	1,913	-7%	-3%	-1%
Operating profit	286	610	687	628	1,133	750	-55%	-46%	-8%
Net profit	182	454	512	401	538	582	-55%	-16%	-12%
EPS (HK\$)	0.03	0.07	0.08	0.07	0.09	0.10	-59%	-22%	-22%
Gross margin	16.2%	17.9%	18.2%	17.1%	17.9%	17.5%	-0.9 ppt	0.1 ppt	0.6 ppt
Operating margin	3.2%	6.2%	6.4%	6.8%	11.1%	6.9%	-3.7 ppt	-4.9 ppt	-0.4 ppt
Net Margin	2.0%	4.6%	4.6%	4.4%	5.3%	5.3%	-2.4 ppt	-0.7 ppt	-0.7 ppt

Source: Company data, CMBIS estimates

Figure 4: Revenue breakdown

HK\$ mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
Handsets	6,621	2,856	4,264	7,120	3,149	4,064	7,214	7,791	7,888
...YoY	12%	-1%	14%	8%	10%	-5%	1%	8%	1%
Metal	2,786	562	963	1,525	390	764	1,154	913	842
...YoY	-42%	-62%	-27%	-45%	-31%	-21%	-24%	-21%	-8%
Glastic	2,145	1,193	2,122	3,315	1,772	2,122	3,894	4,206	3,788
...YoY	538%	14%	94%	55%	48%	0%	17%	8%	-10%
Glass	207	328	218	546	225	257	482	443	511
...YoY	14702%	180%	142%	163%	-31%	18%	-12%	-8%	15%
Apple	849	774	961	1,734	763	921	1,684	2,229	2,747
...YoY	92%	202%	-22%	17%	-1%	-4%	-3%	32%	23%
Electrical appliances	849	343	285	627	268	256	524	577	594
...YoY	-2%	-32%	-17%	-26%	-22%	-10%	-16%	10%	3%
Notebook computers	83	-	-	-	-	-	-	-	-
...YoY	-88%	-	-	-	-	-	-	-	-
Household goods	607	328	320	648	290	295	585	672	740
...YoY	21%	-8%	28%	7%	-12%	-8%	-10%	15%	10%
Network communications	739	382	408	791	283	447	730	867	973
...YoY	5%	23%	-5%	7%	-26%	10%	-8%	19%	12%
Total	8,899	3,909	5,277	9,186	3,990	5,063	9,053	9,907	10,195
...YoY	4%	-6%	11%	3%	2%	-4%	-1%	9%	3%

Source: Company data, CMBIS estimates

Figure 5: P&L forecast

HK\$ mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	3,909	5,277	9,186	3,584	3,990	5,063	9,053	9,907	10,195
...YoY	-5.8%	11.1%	3.2%	-8.3%	2.1%	-4.1%	-1.4%	9.4%	2.9%
Cost of sales	(3,083)	(4,426)	(7,509)	(3,023)	(3,383)	(4,203)	(7,586)	(8,131)	(8,307)
Gross profit	826	851	1,677	561	607	859	1,467	1,776	1,888
GPM (%)	21.1%	16.1%	18.3%	15.7%	15.2%	17.0%	16.2%	17.9%	18.5%
...YoY	-13.9%	1.9%	-6.5%	-32.1%	-26.5%	1.0%	-12.5%	21.1%	6.3%
Selling Exp	(59)	(75)	(133)	(54)	(62)	(71)	(133)	(138)	(141)
...% of rev	-1.5%	-1.4%	-1.5%	-1.5%	-1.6%	-1.4%	-1.5%	-1.4%	-1.4%
R&D	(171)	(241)	(412)	(161)	(175)	(228)	(403)	(446)	(459)
...% of rev	-4.4%	-4.6%	-4.5%	-4.5%	-4.4%	-4.5%	-4.4%	-4.5%	-4.5%
Operating profit	415	172	586	145	64	222	286	610	687
OPM (%)	10.6%	3.3%	6.4%	4.1%	1.6%	4.4%	3.2%	6.2%	6.7%
...YoY	-23.5%	-11.0%	-20.2%	-64.9%	-84.6%	29.1%	-51.3%	113.4%	12.7%
Net profit	316	86	402	24	29	151	182	454	512
NPM (%)	8.1%	1.6%	4.4%	0.7%	0.7%	3.0%	2.0%	4.6%	5.0%
...YoY	-24.6%	-30.8%	-26.0%	-92.5%	-90.8%	76.5%	-54.7%	149.6%	12.6%

Source: Company data, CMBIS estimates

Valuation

Maintain Hold with TP of HK\$0.50

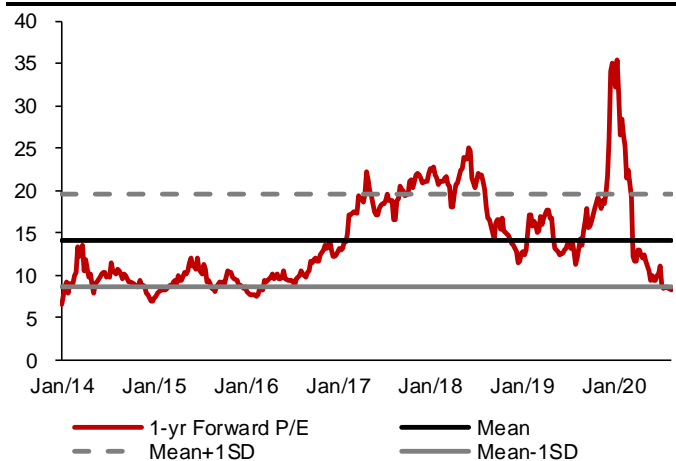
We raised FY20-22E revenue given better Samsung/Xiaomi shipment but trimmed GPM by 0.1-9ppt for inferior product mix and intense competition. We maintain Hold with TP HK\$0.50 based on 7x FY21E P/E (1-sd below hist. avg.), given weaker growth visibility and margin downside risks.

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	372	0.46	0.5	9%	16.2	6.5	0.5	0.5	3.0	6.9
BYDE	285 HK	Buy	8,489	29.20	22.2	-24%	35.9	27.0	3.2	2.9	9.0	10.9
Ju Teng	3336 HK	NR	354	2.35	NA	NA	7.5	8.4	0.4	0.4	5.5	4.8
FIH	2038 HK	NR	931	0.88	NA	NA	-	12.6	0.5	0.5	0.9	3.5
Average							19.8	13.6	1.1	1.1	4.6	6.5
China-listed												
Everwin	300115 CH	NR	3,176	24.16	NA	NA	41.8	29.5	4.5	4.0	10.9	12.9
Janu	300083 CH	NR	2,066	10.01	NA	NA	34.5	20.9	4.5	3.7	13.0	17.8
Average							38.2	25.2	4.5	3.9	11.9	15.3
Overseas-listed												
Foxconn	2354 TT	NR	2,460	51.20	NA	NA	10.2	9.4	0.6	0.5	6.2	6.3
Casetek	5264 TT	NR	1,213	84.90	NA	NA	414.1	27.1	1.2	1.1	1.3	4.5
Catcher	2474 TT	NR	4,928	190.50	NA	NA	9.3	9.4	0.9	0.9	10.4	9.7
Average							144.6	15.3	0.9	0.8	6.0	6.8

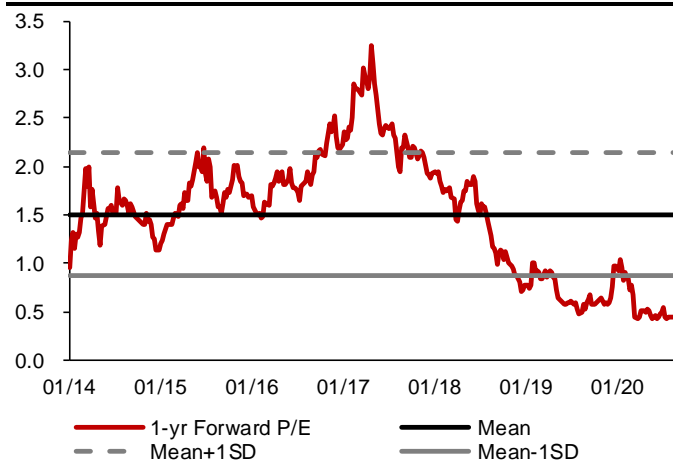
Source: Bloomberg, CMBIS estimates

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	9,053	9,907	10,195
COGS	(7,105)	(7,509)	(7,586)	(8,131)	(8,307)
Gross profit	1,794	1,677	1,467	1,776	1,888
Selling and marketing	(129)	(133)	(133)	(138)	(141)
Administrative	(875)	(946)	(958)	(991)	(1,019)
R&D					
Other operating exp.	(55)	(11)	(90)	(38)	(40)
Operating profit	735	586	286	610	687
Financial cost	(174)	(207)	(169)	(173)	(185)
Other income/(loss)	115	105	104	109	112
Pre-tax profit	676	485	221	546	614
Tax	(113)	(84)	(34)	(82)	(92)
Minority interest	20	(1)	5	9	10
Net profit	543	402	182	454	512

Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	676	485	221	546	614
Depreciation	390	761	497	547	598
Change in working capital	(19)	775	(314)	(22)	(316)
Others	(9)	(507)	(48)	(90)	(104)
Net cash from operating	1,038	1,514	356	981	792
Capex	(911)	(1,000)	(900)	(900)	(900)
Other	(631)	327	14	8	12
Net cash from investing	(1,542)	(673)	(886)	(892)	(888)
Net borrowings	947	(402)	93	262	296
Dividend paid	(35)	(3)	(39)	(45)	(51)
Share issue/(repurchase)	-				
Other	(356)	(85)	0	0	0
Net cash from financing	556	(490)	54	217	245
Net change in cash	52	351	(476)	306	149
Cash at beginning of the year	792	768	1,078	601	908
Exchange difference	(76)	(42)	0	0	0
Cash at the end of the year	768	1,078	601	908	1,057

Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	7,720	7,464	7,036	8,034	7,960
Cash & equivalents	768	1,078	601	908	1,057
Account receivables	3,115	2,946	3,027	3,510	3,217
Inventories	2,529	2,245	2,212	2,421	2,491
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	0	0	0	0
Investment property	68	0	0	0	0
Long-term deposits	626	531	531	531	531
Other non-current assets	116	489	489	489	489
Total assets	13,642	13,573	13,549	14,899	15,128
Current liabilities	5,888	6,344	6,144	6,998	6,667
ST borrowings	2,455	2,633	2,698	2,882	3,090
Account payables	2,626	2,948	2,683	3,353	2,814
Other current liabilities	807	763	763	763	763
Non-current liabilities	1,817	1,247	1,274	1,352	1,441
LT borrowings	1,697	1,117	1,145	1,223	1,311
Other non-current liabilities	120	129	129	129	129
Total liabilities	7,705	7,591	7,418	8,350	8,107
Share capital	65	65	65	65	65
Reserves	5,898	5,881	6,024	6,434	6,895
Minority interest	(26)	36	41	50	61
Shareholders' equity	5,937	5,982	6,130	6,549	7,020
Total equity and liabilities	13,642	13,573	13,549	14,899	15,128

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Handsets	74	78	80	79	77
Electrical Appliances	10	7	6	6	6
Notebook Computers	1	0	0	0	0
Ironware parts	7	7	6	7	7
Network commu.	8	9	8	9	10
Growth (%)					
Revenue	4	3	(1)	9	3
Gross profit	(20)	(7)	(13)	21	6
Operating profit	(41)	(20)	(51)	113	13
Net profit	(46)	(26)	(55)	150	13
Profit & loss ratio (%)					
Gross margin	20	18.3	16.2	17.9	18.5
Operating margin	8	6.4	3.2	6.2	6.7
Net profit margin	6	4.4	2.0	4.6	5.0
Balance sheet ratio					
Net debt/total equity (x)	0.6	0.4	0.5	0.5	0.5
Current ratio (x)	1.3	1.2	1.1	1.1	1.2
Receivable turnover days	144	120	120	120	120
Inventory turnover days	134	116	107	104	108
Payable turnover days	138	135	135	135	135
Profitability (%)					
ROE	9.1	6.7	3.0	6.9	7.3
ROA	4.0	3.0	1.3	3.1	3.4
Per share data (HK\$)					
EPS	0.09	0.062	0.028	0.070	0.079
DPS	0.01	0.00	0.01	0.01	0.01

Source: Company data, CMBIS estimates

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