

# Tongda (698 HK)

## Healthier balance sheet and Android momentum to drive profitability recovery

We recently spoke to Tongda's mgmt., and with Apple biz disposal and business reorganisation in 1H24E, mgmt. reiterated their positive view on Android demand recovery, major customers' share gains (Xiaomi, Honor/Huawei), household & sports goods demand and cooling modules for AI servers to drive growth in FY24-25E. We lower FY24/25E EPS by 1-9% to reflect the business disposal, a lower GPM and debt repayment. Our new TP of HK\$0.14 is based on the same 6.0x FY24E P/E. Trading at 3.0x/2.5x FY24/25E P/E (lower than 1sd below 10-year hist. avg.), the stock offers attractive risk/reward in our view. Maintain BUY.

■ **2024/25 outlook: Handset casing recovery and household & sports goods as major growth drivers.** For 2024, mgmt. expects: 1) Handset casing: 15%+ YoY with a stable GPM driven by major Android clients (Xiaomi, Honor/Huawei) and spec upgrades for new model launches; 2) Smart electrical appliances: HKD600mn in sales thanks to favourable policy and market demand improvement; 3) Network communication: HKD600mn in sales from router demand given WiFi-7 upgrades in Paris Olympic Games. 4) Household and sports goods: 13%+ YoY growth with a better GPM (vs. 27.3% in FY23) driven by overseas customers' inventory restocking, customer order wins and new factories' production ramp-up. Looking ahead to 2025, mgmt. expects 15-20% revenue upside for handset casing business, 25% YoY for household & sports goods and 10%/10% YoY for smart electrical appliance/network communication segments. Overall, after business disposal, we forecast non-Apple business will grow 34% YoY in FY24E, and overall revenue decline will narrow to -8% YoY in FY24E (vs. -18% in FY23) with net margin improving to 3.8%/4.3% in FY24/25E.

■ **Focus on balance sheet and profitability improvement after biz disposal.** FY23 revenue decline of 18% YoY was mainly dragged by sluggish smartphone demand on macro weakness and disposal of auto interior components and aluminium battery components businesses. GPM dropped 10.1ppts to 5.3% on higher costs (depreciation, utilities and wages), increase in inventory provision and one-off charges from the shutdown of loss-making factories. In addition, Tongda announced disposal of Apple business at end-2023, and we think net proceeds of HK\$1.5bn will improve its balance sheet and overall profitability. We are positive on its non-apple customers such as Honor/Huawei and Xiaomi to drive handset casing business growth going forward.

■ **Maintain BUY.** We lower FY24/25E EPS estimates by 1-9% to reflect the business disposal, a lower GPM and debt repayment. Our new TP of HK\$0.14 is based on the same 6.0x FY24E P/E. Trading at 3.0x/2.5x FY24/25E P/E (lower than 1sd below 10-year hist. avg.), the stock has attractive risk/reward in our view. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	7,559	6,522	6,009	6,487	6,848
YoY growth (%)	(19.9)	(13.7)	(7.9)	7.9	5.6
Net profit (HK\$ mn)	137.3	(1,229.7)	227.3	277.9	324.8
YoY growth (%)	(39.8)	na	na	22.2	16.9
EPS (Reported) (HK\$ cents)	1.41	(12.64)	2.34	2.86	3.34
YoY growth (%)	(51.2)	na	na	22.2	16.9
Consensus EPS (HK\$ cents)	0.00	0.00	2.60	2.11	5.00
P/E (x)	5.0	ns	3.0	2.5	2.1
P/B (x)	0.1	0.1	0.1	0.1	0.1
Yield (%)	0.0	0.0	2.6	3.2	3.8
ROE (%)	1.7	(16.8)	3.2	3.8	4.3
Net gearing (%)	23.4	25.5	(17.8)	(36.6)	(54.4)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$0.14</b>
(Previous TP)	HK\$0.155
<b>Up/Downside</b>	<b>97.5%</b>
<b>Current Price</b>	<b>HK\$0.07</b>

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### Stock Data

Mkt Cap (HK\$ mn)	690.0
Avg 3 mths t/o (HK\$ mn)	0.8
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%

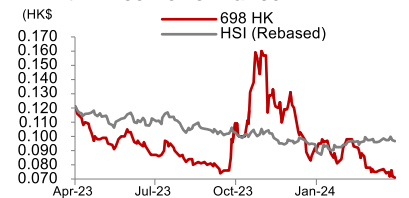
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-9.0%	-8.3%
3-mth	-22.8%	-24.6%
6-mth	-26.0%	-20.6%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

- Positive on earnings recovery in FY24-25E after disposal of Apple business – 2 Jan 2024 ([link](#))
- Positive on Android recovery, Apple share gain and non-smartphone biz order wins- 11 Sep 2023 ([link](#))
- 1H23 Preview: weak revenue amid industry headwinds; expect smartphone recovery in 2H23E– 4 Aug 2023 ([link](#))

## Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,009	6,487	6,848	6,215	6,458	na	-3%	0%	na
Gross profit	971	1,078	1,164	1,107	1,162	na	-12%	-7%	na
Operating profit	202	248	294	243	278	na	-17%	-11%	na
Net profit	227	278	325	251	281	na	-9%	-1%	na
EPS (HK\$)	0.023	0.029	0.033	0.026	0.03	na	-9%	-1%	na
Gross margin	16.2%	16.6%	17.0%	17.8%	18.0%	na	-1.6 ppt	-1.4 ppt	na
Operating margin	3.4%	3.8%	4.3%	3.9%	4.3%	na	-0.5 ppt	-0.5 ppt	na
Net Margin	3.8%	4.3%	4.7%	4.0%	4.4%	na	-0.3 ppt	-0.1 ppt	na

Source: Company data, CMBIGM estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,009	6,487	6,848	na	na	na	na	na	na
Gross profit	971	1,078	1,164	na	na	na	na	na	na
Operating profit	202	248	294	na	na	na	na	na	na
Net profit	227	278	325	253	281	na	-10%	-1%	na
EPS (HK\$)	0.023	0.029	0.033	0.026	0.029	na	-10%	-2%	na
Gross margin	16.2%	16.6%	17.0%	17.8%	18.0%	na	-1.6 ppt	-1.4 ppt	na
Operating margin	3.4%	3.8%	4.3%	na	na	na	na	na	na
Net Margin	3.8%	4.3%	4.7%	na	na	na	na	na	na

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Revenue breakdown

HK\$ mn	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
<b>Handsets</b>	<b>5,637</b>	<b>1,640</b>	<b>1,931</b>	<b>3,571</b>	<b>3,710</b>	<b>3,404</b>
...YoY	6%	-22%	-30%	-37%	4%	-8%
Metal	333	178	266	444	570	444
...YoY	-21%	32%	34%	33%	28%	-22%
Non-metal	2,195	1,110	1,665	2,775	3,140	2,960
...YoY	-18%	21%	31%	26%	13%	-6%
Apple	2,309	352	-	352	-	-
...YoY	-7%	-66%	-	-85%	-	-
<b>Electrical appliances</b>	<b>-</b>	<b>100</b>	<b>150</b>	<b>250</b>	<b>325</b>	<b>374</b>
...YoY	-	-	-	-	30%	15%
<b>Household goods</b>	<b>885</b>	<b>486</b>	<b>752</b>	<b>1,238</b>	<b>1,672</b>	<b>2,173</b>
...YoY	-19%	10%	10%	40%	35%	30%
<b>Network comm.</b>	<b>772</b>	<b>600</b>	<b>-</b>	<b>600</b>	<b>780</b>	<b>897</b>
...YoY	-32%	107%	-100%	-22%	30%	15%
<b>Total</b>	<b>6,522</b>	<b>2,926</b>	<b>3,084</b>	<b>6,009</b>	<b>6,487</b>	<b>6,848</b>
...YoY	-14%	3%	-22%	-8%	8%	6%

Source: Company data, CMBIGM estimates

Note: revenue for electrical appliances business not available in FY23 because the company reorganized and combined this business segment into Consumer Electronics Structural Components business.

Figure 4: P&amp;L forecast

HK\$ mn	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>6,522</b>	<b>2,926</b>	<b>3,084</b>	<b>6,009</b>	<b>6,487</b>	<b>6,848</b>
...YoY	-13.7%	3.3%	-21.6%	-7.9%	7.9%	5.6%
Cost of sales	-6,176	-2,432	-2,606	-5,038	-5,409	-5,684
<b>Gross profit</b>	<b>346</b>	<b>493</b>	<b>478</b>	<b>971</b>	<b>1,078</b>	<b>1,164</b>
GPM (%)	5.3%	16.9%	15.5%	16.2%	16.6%	17.0%
...YoY	-75.2%	-14.1%	-309.5%	180.9%	11.0%	8.0%
Selling Exp	(82)	(18)	(19)	(36)	(39)	(41)
...% of rev	-1.3%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
R&D	0	(178)	(188)	(367)	(396)	(411)
...% of rev	0.0%	-6.1%	-6.1%	-6.1%	-6.1%	-6.0%
<b>Operating profit</b>	<b>(1094)</b>	<b>119</b>	<b>83</b>	<b>202</b>	<b>248</b>	<b>294</b>
OPM (%)	-16.8%	4.1%	2.7%	3.4%	3.8%	4.3%
...YoY	-296.4%	57.5%	-107.1%	-118.5%	22.7%	18.9%
<b>Net profit</b>	<b>-1,230</b>	<b>78</b>	<b>149</b>	<b>227</b>	<b>278</b>	<b>325</b>
NPM (%)	-18.9%	2.7%	4.8%	3.8%	4.3%	4.7%
...YoY	-995.7%	303.9%	-111.9%	-	22.2%	16.9%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP of HK\$0.14

Our new TP of HK\$0.14 is based on the same 6.0x FY24E P/E. We think the stock's current valuation of 3.0x/2.5x FY24/25E 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

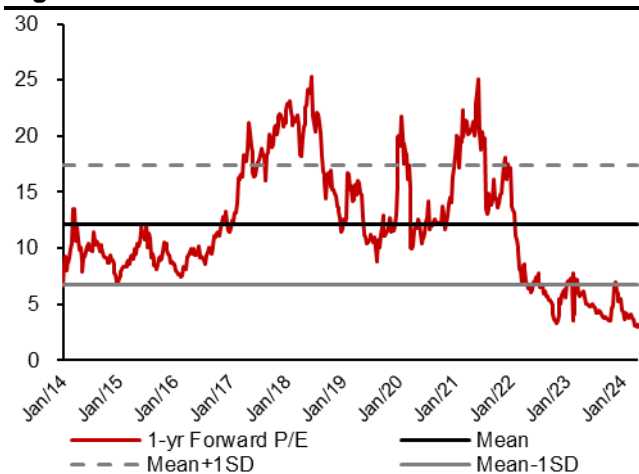
Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>HK-listed</b>												
Tongda	698 HK	BUY	91	0.07	0.14	92%	NA	3.0	0.1	0.1	-16.8	3.2
BYDE	285 HK	BUY	7,211	25.05	46.5	86%	12.6	9.1	1.7	2.6	13.7	29.0
Ju Teng	3336 HK	NR	164	1.07	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	685	0.68	NA	NA	-	-	-	-	-	-
<b>Average</b>							<b>12.6</b>	<b>6.1</b>	<b>0.9</b>	<b>1.4</b>	<b>-1.6</b>	<b>16.1</b>
<b>China-listed</b>												
Everwin	300115 CH	NR	1,632	9.81	NA	NA	68.6	18.1	2.0	1.8	2.2	10.3
Janus	300083 CH	NR	1,297	5.57	NA	NA	30.8	19.3	1.9	1.8	6.0	8.8
<b>Average</b>							<b>49.7</b>	<b>18.7</b>	<b>2.0</b>	<b>1.8</b>	<b>4.1</b>	<b>9.5</b>
<b>Overseas-listed</b>												
Foxconn	2354 TT	NR	2,390	55.00	NA	NA	12.7	10.2	0.5	0.5	5.8	7.0
Catcher	2474 TT	NR	4,326	206.50	NA	NA	11.7	16.2	0.8	-	7.2	5.5
<b>Average</b>							<b>12.2</b>	<b>13.2</b>	<b>0.7</b>	<b>0.5</b>	<b>6.5</b>	<b>6.2</b>

Source: Bloomberg, CMBIGM estimates

## Risks

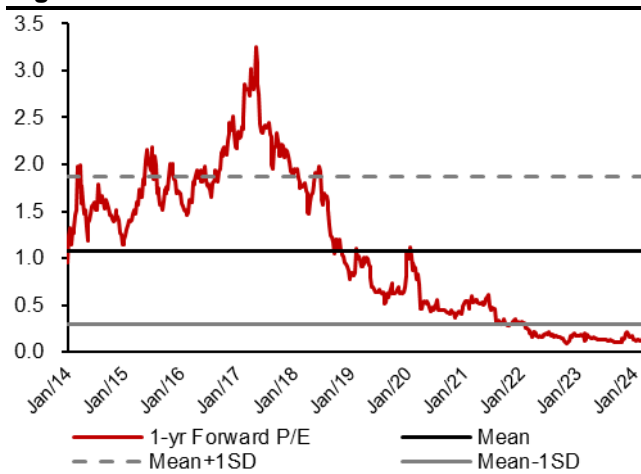
Key downside risks include slower-than-expected android demand recovery, slow production ramp-up at new factories, and weaker-than-expected new order wins.

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	9,433	7,559	6,522	6,009	6,487	6,848
Cost of goods sold	(7,930)	(6,167)	(6,176)	(5,038)	(5,409)	(5,684)
<b>Gross profit</b>	<b>1,503</b>	<b>1,392</b>	<b>346</b>	<b>971</b>	<b>1,078</b>	<b>1,164</b>
<b>Operating expenses</b>	<b>(1,163)</b>	<b>(1,175)</b>	<b>(1,292)</b>	<b>(733)</b>	<b>(791)</b>	<b>(829)</b>
Selling expense	(57)	(53)	(82)	(36)	(39)	(41)
Admin expense	(1,106)	(1,122)	(1,211)	(697)	(752)	(788)
SG&A expense	0	0	0	0	0	0
Others	(32)	(62)	(147)	(36)	(39)	(41)
<b>Operating profit</b>	<b>308</b>	<b>557</b>	<b>(1,094)</b>	<b>202</b>	<b>248</b>	<b>294</b>
<b>EBITDA</b>	<b>375</b>	<b>2,217</b>	<b>552</b>	<b>1,648</b>	<b>1,723</b>	<b>1,799</b>
Other income/expense	69	71	138	106	117	124
Others	(74)	(138)	(197)	(50)	(50)	(50)
<b>Pre-tax profit</b>	<b>303</b>	<b>491</b>	<b>(1,153)</b>	<b>258</b>	<b>315</b>	<b>368</b>
Income tax	(51)	(67)	(52)	(26)	(31)	(37)
Minority interest	15	14	25	5	6	7
<b>Net profit</b>	<b>228</b>	<b>137</b>	<b>(1,230)</b>	<b>227</b>	<b>278</b>	<b>325</b>
Adjusted net profit	228	137	(1,230)	227	278	325

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
<b>Current assets</b>	<b>9,354</b>	<b>7,993</b>	<b>8,034</b>	<b>9,430</b>	<b>11,394</b>	<b>12,885</b>
Cash & equivalents	1,366	1,195	1,160	2,726	4,230	5,793
Account receivables	3,317	2,159	1,907	1,837	2,204	2,063
Inventories	3,177	2,351	1,267	1,168	1,260	1,331
Prepayment	523	653	623	623	623	623
Other current assets	971	1,634	3,076	3,076	3,076	3,076
<b>Non-current assets</b>	<b>7,402</b>	<b>6,236</b>	<b>5,269</b>	<b>2,473</b>	<b>1,198</b>	<b>(107)</b>
PP&E	6,658	5,598	4,552	1,756	481	(824)
Other non-current assets	744	638	717	717	717	717
<b>Total assets</b>	<b>16,755</b>	<b>14,229</b>	<b>13,303</b>	<b>11,903</b>	<b>12,592</b>	<b>12,778</b>
<b>Current liabilities</b>	<b>7,720</b>	<b>5,444</b>	<b>5,073</b>	<b>4,003</b>	<b>4,411</b>	<b>4,269</b>
Short-term borrowings	2,931	1,928	1,878	921	954	993
Account payables	3,772	2,531	1,837	1,724	2,099	1,918
Other current liabilities	1,016	986	1,358	1,358	1,358	1,358
<b>Non-current liabilities</b>	<b>814</b>	<b>1,154</b>	<b>1,226</b>	<b>683</b>	<b>702</b>	<b>724</b>
Long-term borrowings	639	1,051	1,065	522	541	563
Other non-current liabilities	175	103	161	161	161	161
<b>Total liabilities</b>	<b>8,534</b>	<b>6,598</b>	<b>6,299</b>	<b>4,686</b>	<b>5,113</b>	<b>4,994</b>
Share capital	97	97	97	97	97	97
Other reserves	8,063	7,466	6,585	6,795	7,050	7,349
<b>Total shareholders equity</b>	<b>8,221</b>	<b>7,631</b>	<b>7,003</b>	<b>7,217</b>	<b>7,479</b>	<b>7,784</b>
Minority interest	61	68	321	325	331	338
<b>Total equity and liabilities</b>	<b>16,755</b>	<b>14,229</b>	<b>13,303</b>	<b>11,903</b>	<b>12,592</b>	<b>12,778</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>303</b>	<b>491</b>	<b>(1,153)</b>	<b>258</b>	<b>315</b>	<b>368</b>
Depreciation & amortization	67	1,660	1,645	1,446	1,475	1,505
Change in working capital	(731)	279	643	56	(85)	(109)
Others	769	(1,686)	(1,128)	(41)	(67)	(92)
<b>Net cash from operations</b>	<b>408</b>	<b>743</b>	<b>7</b>	<b>1,719</b>	<b>1,639</b>	<b>1,672</b>
<b>Investing</b>						
Capital expenditure	(900)	(600)	(600)	(150)	(200)	(200)
Others	(320)	251	225	1,515	35	55
<b>Net cash from investing</b>	<b>(1,220)</b>	<b>(349)</b>	<b>(375)</b>	<b>1,365</b>	<b>(165)</b>	<b>(145)</b>
<b>Financing</b>						
Dividend paid	0	0	0	(18)	(22)	(26)
Net borrowings	43	(591)	(35)	(1,500)	52	61
Proceeds from share issues	752	0	0	0	0	0
Others	(98)	277	710	0	0	0
<b>Net cash from financing</b>	<b>696</b>	<b>(314)</b>	<b>675</b>	<b>(1,518)</b>	<b>30</b>	<b>35</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,353	1,366	1,195	1,160	2,726	4,230
Exchange difference	129	(251)	(341)	0	0	0
<b>Cash at the end of the year</b>	<b>1,366</b>	<b>1,195</b>	<b>1,160</b>	<b>2,726</b>	<b>4,230</b>	<b>5,793</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	(3.3%)	(19.9%)	(13.7%)	(7.9%)	7.9%	5.6%
Gross profit	(12.1%)	(7.4%)	(75.2%)	180.9%	11.0%	8.0%
Operating profit	(38.7%)	80.8%	na	na	22.7%	18.9%
EBITDA	(66.6%)	491.3%	(75.1%)	198.8%	4.6%	4.4%
Net profit	(35.1%)	(39.8%)	na	na	22.2%	16.9%
Adj. net profit	(35.1%)	(39.8%)	na	na	22.2%	16.9%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	15.9%	18.4%	5.3%	16.2%	16.6%	17.0%
Operating margin	3.3%	7.4%	(16.8%)	3.4%	3.8%	4.3%
EBITDA margin	4.0%	29.3%	8.5%	27.4%	26.6%	26.3%
Adj. net profit margin	2.4%	1.8%	(18.9%)	3.8%	4.3%	4.7%
Return on equity (ROE)	3.1%	1.7%	(16.8%)	3.2%	3.8%	4.3%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.3	0.2	0.3	(0.2)	(0.4)	(0.5)
Current ratio (x)	1.2	1.5	1.6	2.4	2.6	3.0
Receivable turnover days	122.1	132.2	113.8	113.7	113.7	113.7
Inventory turnover days	123.8	163.6	106.9	88.2	81.9	83.2
Payable turnover days	160.6	186.5	129.1	129.0	129.0	129.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	2.5	5.0	ns	3.0	2.5	2.1
P/B	0.1	0.1	0.1	0.1	0.1	0.1
Div yield (%)	0.0	0.0	0.0	2.6	3.2	3.8

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

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