

Tongda Group (698 HK)

Emerging growth drivers to fuel recovery in 2H22E

Tongda FY21 net profit decline of 35% YoY was mainly due to 2H21 smartphone weakness and lower GPM. While we expect 1H22E will remain challenging given soft smartphone demand, we expect Tongda earnings to recover at 92% YoY growth in 2H22E driven by: 1) share gain in iPhone 14 components, 2) Meta's LSR order win, and 3) CATL's aluminum parts. We adjusted TP to HK\$0.23 (53% upside) based on revised EPS and rollovered 5x FY22E P/E. Trading at historical-low of 3.1x forward P/E, the stock offers attractive risk/reward in our view. Major catalysts include Meta's product launch and iPhone 14 share gain.

- FY21 revenue/net profit +2.2%/ -35% YoY.** Tongda FY21 revenue was flattish at 2% YoY but net profit declined 35% YoY, mainly due to sluggish smartphone shipment and lower casing ASP/GPM in 2H21. By segment, non-handset casing biz (52% of sales) delivered solid growth at 22% YoY (vs -7% for handset casing), in which Apple/ household & sports/ network comm./ electrical appliances segments reported +23%/ +41%/ +44% YoY in FY21, accounting for 25%/11%/10% of FY21 revenue.
- Non-handset casings to emerge as major growth drivers.** Looking ahead, we believe handset casing will remain challenging for Tongda in FY22E, and emerging segments (e.g. Apple, Meta) will become major growth drivers in FY22-24E. We expect Apple & Meta revenue will account for 32% of FY24E (vs 25% in FY21). In addition, we estimate household & sportswear (e.g. Ikea, Decathlon) and network & others (e.g. CATL, automotive, TP-Link routers) segments will deliver solid growth of 20%/27% YoY in FY22E.
- Maintain BUY with new TP of HK\$0.23 (53% upside).** We largely maintain our revenue estimates but lowered FY22E GPM for industry headwinds. Our new TP of HK0.23 is based on rollovered 5x FY22E P/E (vs 7x prior). We think current valuation is distressed at 3.3x FY22E P/E (well below 1-sd below hist. P/E), which we think is attractive as we expect Tongda's earnings growth to resume 2H22E. Looking into FY23/24E, we believe Tongda will benefit from accelerated expansion into Apple's wearables (AR/VR) and Meta's VR devices. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	9,759	9,969	10,944	11,878	12,787
YoY growth (%)	6.2	2.2	9.8	8.5	7.6
Net income (HK\$ mn)	351	228	365	469	548
EPS (HK\$)	0.05	0.03	0.05	0.06	0.07
YoY growth (%)	(20.2)	(41.5)	60.0	28.6	16.7
Consensus EPS (HK\$)	0.051	0.053	0.060	0.066	na
P/E (x)	3.1	5.2	3.3	2.5	2.2
P/B (x)	0.1	0.1	0.1	0.1	0.1
Yield (%)	0.3	-	5.2	5.2	5.2
ROE (%)	5.3	2.8	4.3	5.2	5.8
Net gearing (%)	33	27	32	16	16

Source: Company data, CMBIGM

BUY (Maintain)

Target Price **HK\$0.23**
 (Previous TP **HK\$0.39**)
 Upside **53%**
 Current Price **HK\$0.15**

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,458
Avg 3 mths t/o (HK\$ mn)	4.56
52w High/Low (HK\$)	0.60/ 0.11
Total Issued Shares (mn)	9,719

Source: Bloomberg

Shareholding Structure

Landmark Worldwide	24.44%
Ya Nan Wang	11.68%
Dimensional Fund	2.24%

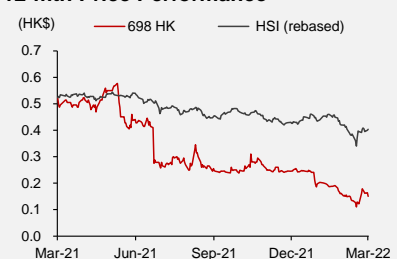
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.9%	13.0%
3-mth	-33.1%	-28.1%
6-mth	-35.7%	-27.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Key takeaways from analyst call:

2021 Review:

- Revenue was HK\$9.97bn, up 2.2% YoY; GPM was 16.5%, down 1.0 ppts YoY.
- Chip shortage and COVID-19 led to negative impact to global consumer electronics and smartphone markets. Smartphone shipment in 2H21 declined YoY.
- EBITDA margin was 12.9%, up 0.1 ppts YoY.
- Net profit was HK\$228.2mn, down 35% YoY.

(1) Handset Casings and High-precision Components

- Revenue was HK\$7.28bn, down 3.7% YoY, accounting for 73.0% of total revenue
- Smartphone casing shipment was affected by 2H21 smartphone shipment decline.
- Became qualified supplier for Meta, offering AR/VR components.
- Started cooperation with CATL in new energy power battery.

(2) Household and Sports Goods

- Revenue was HK\$1.14bn, up 40.8% YoY, driven by strong demand.
- 2021 qualified new customers include OXO from US and Joseph from UK (new product release this year).
- Gross margin was ~10%.

(3) Network Communications Facilities and Others

- Revenue was HK1.01bn, up 43.9% YoY, accounting for 10.2% of total revenue
- Automotive sales up 43% YoY
- Qualified suppliers for Sky in UK

(4) Smart Electrical Appliances Casings

- Revenue was HK\$536.1mn, down 22.1% YoY, accounting for 5.4% of total revenue
- 2H21 sales declined due to appliances closely tied to lackluster housing market.

2022 guidance and outlook:

- Target revenue to reach HK\$10bn
- Capex declines by 40-50% YoY
- Breakthrough in New energy automobiles, household, Meta AR/VR fields
- **Handset Casings and High-precision Components**
 - 1) **Handset casing:** Chinese Android business remains challenging; strengthen cooperation with overseas brands, shift casings' capacity to other business units
 - 2) **High-precision Components:** North American customer's new phone product release drives market share gain
 - 3) Meta AR/VR: starts to provide ARVR components to Meta, small size in sales
- **Household and Sports Goods**
 - 1) Used to and has been the business with high gross margin, management is confident with future growth, driven by strong customer demand
- **Network Communications Facilities and Others**
 - 1) Sales revenue increases significantly driven by strong customer's demand
 - 2) Increase in R&D to develop technologies in lithium battery
 - 3) Adjust capacity moderately to meet demand
- **Smart Electrical Appliances Casings**
 - 1) Management wish the Chinese housing market to rebound so to maintain sustained growth in sales

Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	10,944	11,878	12,787	10,796	NA	NA	1%	NA	NA
Gross profit	1,841	2,100	2,310	2,026	NA	NA	-9%	NA	NA
Operating profit	480	605	699	754	NA	NA	-36%	NA	NA
Net profit	365	469	548	568	NA	NA	-36%	NA	NA
EPS (HK\$)	0.05	0.06	0.07	0.09	NA	NA	-47%	NA	NA
Gross margin	15.3%	16.4%	17.1%	18.8%	NA	NA	-3.5 ppt	NA	NA
Operating margin	1.7%	3.2%	3.9%	7.0%	NA	NA	-5.4 ppt	NA	NA
Net Margin	0.7%	2.2%	2.8%	5.2%	NA	NA	-4.5 ppt	NA	NA

Source: Company data, CMBIGM estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	10,944	11,878	12,787	11,809	12,943	NA	-7%	-8%	NA
Gross profit	1,841	2,100	2,310	2,031	2,226	NA	-9%	-6%	NA
Operating profit	480	605	699	697	774	NA	-31%	-22%	NA
Net profit	365	469	548	495	569	NA	-26%	-17%	NA
EPS (HK\$)	0.05	0.06	0.07	0.06	0.07	NA	-23%	-10%	NA
Gross margin	15.3%	16.4%	17.1%	17.2%	17.2%	NA	-1.9 ppt	-0.8 ppt	NA
Operating margin	1.7%	3.2%	3.9%	5.9%	6.0%	NA	-4.2 ppt	-2.7 ppt	NA
Net Margin	0.7%	2.2%	2.8%	4.2%	4.4%	NA	-3.5 ppt	-2.2 ppt	NA

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

HK\$ mn	FY20	1H21	2H21	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Handsets	7,558	3,677	3,604	7,281	2,951	4,763	7,714	7,985	8,078
...YoY	6%	17%	-18%	-4%	-20%	32%	6%	4%	1%
Metal	890	375	375	750	204	374	579	571	555
...YoY	-42%	-4%	-25%	-16%	-45%	0%	-23%	-1%	-3%
Glastic	4,143	1,716	2,482	4,198	1,507	2,718	4,224	3,808	3,427
...YoY	25%	-3%	5%	1%	-12%	9%	1%	-10%	-10%
Glass	508	90	131	222	-	-	-	-	-
...YoY	-7%	-60%	-54%	-56%	0%	0%	0%	0%	0%
Apple	2,017	1,268	1,204	2,472	1,240	1,515	2,755	2,828	2,928
...YoY	16%	66%	-4%	23%	-2%	26%	11%	3%	4%
Electrical appliances	688	322	214	536	348	231	579	625	675
...YoY	10%	20%	-49%	-22%	8%	8%	8%	8%	8%
Notebook computers	-	-	-	-	-	-	-	-	-
...YoY	-	-	-	-	-	-	-	-	-
Household goods	808	588	550	1,138	705	660	1,366	1,639	1,967
...YoY	25%	103%	34%	41%	20%	20%	20%	20%	20%
Network communications	704	528	486	1,014	578	707	1,285	1,630	2,067
...YoY	-11%	87%	15%	44%	10%	45%	27%	27%	27%
Total	9,759	5,115	4,854	9,969	4,583	6,361	10,944	11,878	12,787
...YoY	6%	28%	-14%	2%	-10%	31%	10%	9%	8%

Source: Company data, CMBIGM estimates

Figure 4: P&L forecast

HK\$ mn	FY20	1H20	2H20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
Revenue	9,759	5,115	4,854	9,969	4,583	6,361	10,944	11,878	12,787
...YoY	6.2%	28.2%	-15.9%	2.2%	-10.4%	31.0%	9.8%	8.5%	7.6%
Cost of sales	(8,048)	(4,346)	(3,983)	(8,329)	(3,883)	(5,220)	(9,103)	(9,778)	(10,478)
Gross profit	1,710	770	871	1,640	700	1,141	1,841	2,100	2,310
GPM (%)	17.5%	15.0%	17.9%	16.5%	15.3%	17.9%	16.8%	17.7%	18.1%
...YoY	2.0%	26.7%	-21.1%	-4.1%	-9.1%	31.1%	12.3%	14.1%	10.0%
Selling Exp	(136)	(86)	(78)	(163)	(73)	(102)	(175)	(165)	(178)
...% of rev	-1.4%	-1.7%	-1.6%	-1.6%	-1.6%	-1.6%	-1.6%	-1.4%	-1.4%
R&D	(493)	(248)	(264)	(513)	(225)	(343)	(568)	(587)	(632)
...% of rev	-5.1%	-4.9%	-5.4%	-5.1%	-4.9%	-5.4%	-5.2%	-4.9%	-4.9%
Operating profit	502	80	239	319	77	403	480	605	699
OPM (%)	5.1%	1.6%	4.9%	3.2%	1.7%	6.3%	4.4%	5.1%	5.5%
...YoY	-14.3%	25.3%	-45.4%	-36.4%	-4.5%	68.6%	50.2%	26.0%	15.6%
Net profit	351	54	174	228	32	333	365	469	548
NPM (%)	3.6%	1.1%	3.6%	2.3%	0.7%	5.2%	3.3%	4.0%	4.3%
...YoY	-12.5%	86.9%	-46.0%	-35.1%	-41.0%	91.5%	60.0%	28.6%	16.7%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$0.23 (53% upside)

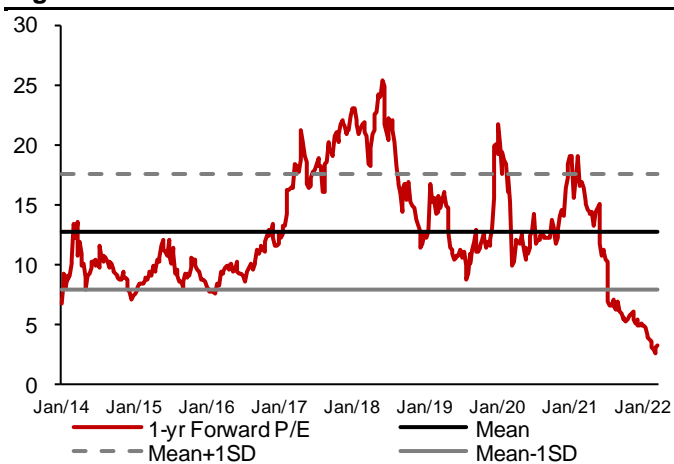
We maintain our revenue estimates but lowered FY22E GPM for industry headwinds. Our new TP of HK\$0.23 is based on rollovered 5x FY22E P/E (vs 7x prior). We think current valuation of 3.3x FY22E P/E is attractive (well below 1-sd below hist. P/E) as we expect Tongda's earnings growth to resume 2H22E. Looking into FY23/24E, we believe Tongda will benefit from accelerated expansion into Apple's wearables (AR/VR) and Meta's VR devices. Maintain BUY.

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 (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HK-listed												
Tongda	698 HK	Buy	185	0.15	0.23	53%	3.3	2.5	0.1	0.1	4.3	5.2
BYDE	285 HK	Hold	4,928	17.12	26.4	54%	9.4	6.7	1.2	1.1	13.2	15.9
Ju Teng	3336 HK	NR	213	1.39	NA	NA	7.0	4.8	0.2	0.2	3.5	5.0
FIH	2038 HK	NR	1,103	1.08	NA	NA	19.7	12.5	0.5	0.5	2.7	4.0
Average							9.6	6.6	0.5	0.5	4.9	6.2
China-listed												
Everwin	300115 CH	NR	1,859	9.87	NA	NA	10.7	7.7	1.6	1.4	13.7	16.4
Janus	300083 CH	NR	2,799	11.55	NA	NA	18.8	13.9	4.5	3.5	23.4	24.3
Average							14.8	10.8	3.0	2.4	18.6	20.4
Overseas-listed												
Foxconn	2354 TT	NR	3,082	62.70	NA	NA	11.0	10.3	0.6	0.6	6.9	7.2
Casatek	5264 TT	NR	-	N/A	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	3,851	145.50	NA	NA	12.4	11.6	0.7	0.7	5.6	5.9
Average							11.7	11.0	0.6	0.6	6.3	6.6

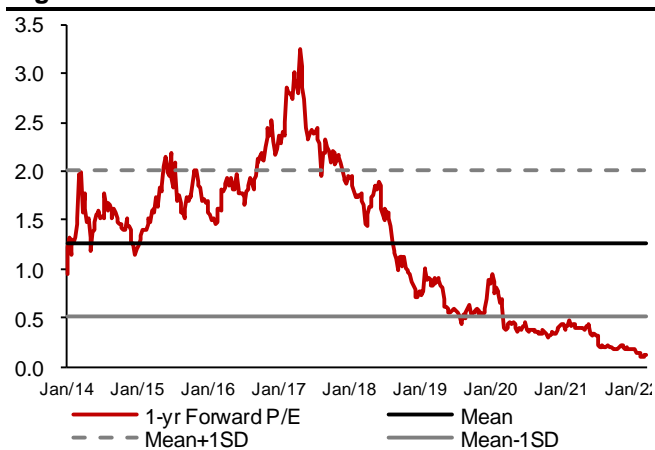
Source: Bloomberg, CMBIGM estimates

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

YE 31 Dec (HK\$ mn)	FY20E	FY21E	FY22E	FY23E	FY24E
Revenue	9,759	9,969	10,944	11,878	12,787
COGS	(8,048)	(8,329)	(9,103)	(9,778)	(10,478)
Gross profit	1,710	1,640	1,841	2,100	2,310
Selling and marketing	(136)	(163)	(175)	(165)	(178)
Administrative	(1,050)	(1,176)	(1,169)	(1,261)	(1,357)
R&D	-	-	-	-	-
Other operating exp.	(22)	18	(17)	(70)	(75)
Operating profit	502	319	480	605	699
Financial cost	(175)	(135)	(161)	(167)	(175)
Other income/(loss)	102	110	120	131	141
Pre-tax profit	430	295	440	569	665
Tax	(70)	(51)	(67)	(90)	(106)
Minority interest	8	15	7	10	11
Net profit	351	228	365	469	548

Cash flow summary

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	430	295	440	569	665
Depreciation	619	67	957	1,012	1,067
Change in working capital	253	(731)	(1,173)	490	(1,117)
Others	96	778	(85)	(103)	(138)
Net cash from operating	1,397	408	139	1,968	476
Capex	(1,176)	(900)	(600)	(600)	(600)
Other	318	(320)	18	13	32
Net cash from investing	(858)	(1,220)	(582)	(587)	(568)
Net borrowings	(223)	43	135	181	216
Dividend paid	(3)	-	(62)	(62)	(62)
Share issue/(repurchase)	-	752	-	-	-
Other	(104)	(98)	-	-	-
Net cash from financing	(331)	696	73	120	154
Net change in cash	209	(115)	(369)	1,501	63
Cash at beginning of the year	1,078	1,353	1,366	997	2,497
Exchange difference	66	129	-	-	-
Cash at the end of the year	1,353	1,366	997	2,497	2,560

Balance sheet

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	7,658	9,354	9,587	11,685	12,314
Cash & equivalents	1,353	1,366	997	2,497	2,560
Account receivables	2,993	3,317	3,610	3,908	4,185
Inventories	2,204	3,177	3,487	3,785	4,074
Prepayments	486	523	523	523	523
Other current assets	622	971	971	971	971
Non-current assets	6,642	7,402	7,044	6,632	6,166
PPE	5,824	6,658	6,300	5,888	5,422
Prepaid land lease					
Investment property	91	91	91	91	91
Long-term deposits	264	209	209	209	209
Other non-current assets	463	444	444	444	444
Total assets	14,300	16,755	16,632	18,317	18,480
Current liabilities	6,212	7,720	7,261	8,497	8,124
ST borrowings	2,228	2,931	3,042	3,191	3,368
Account payables	3,207	3,772	3,203	4,290	3,739
Other current liabilities	777	1,016	1,016	1,016	1,016
Non-current liabilities	1,422	814	838	870	909
LT borrowings	1,300	639	663	695	734
Other non-current liabilities	123	175	175	175	175
Total liabilities	7,634	8,534	8,099	9,368	9,032
Share capital	65	97	97	97	97
Reserves	6,553	8,063	8,366	8,774	9,260
Minority interest	49	61	69	78	90
Shareholders' equity	6,666	8,221	8,532	8,950	9,447
Total equity and liabilities	14,300	16,755	16,632	18,317	18,480

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Handsets	77	73	70	67	63
Electrical Appliances	7	5	5	5	5
Notebook Computers	0	0	0	0	0
Household and sports goods	8	11	12	14	15
Network comm,	7	10	12	14	16
Growth (%)					
Revenue	6	2	10	9	8
Gross profit	2	(4)	12	14	10
Operating profit	(14)	(36)	50	26	16
Net profit	(12)	(35)	60	29	17
Profit & loss ratio (%)					
Gross margin	17.5	16.5	16.8	17.7	18.1
Operating margin	5.1	3.2	4.4	5.1	5.5
Net profit margin	3.6	2.3	3.3	4.0	4.3
Balance sheet ratio					
Net debt/total equity (x)	0.3	0.3	0.3	0.2	0.2
Current ratio (x)	1.2	1.2	1.3	1.4	1.5
Receivable turnover days	111	116	116	116	116
Inventory turnover days	101	118	134	136	137
Payable turnover days	140	153	140	140	140
Profitability (%)					
ROE	5.3	2.8	4.3	5.2	5.8
ROA	2.5	1.4	2.2	2.6	3.0
Per share data (HK\$)					
EPS	0.049	0.029	0.046	0.059	0.069
DPS	0.00	0.00	0.01	0.01	0.01

Source: Company data, CMBIGM estimates

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HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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