

# Tongda Group (698 HK)

## Corp Day Takeaways: Near-term pressure remains; non-handset to drive growth in FY23E

We spoke to Tongda mgmt. during our Technology Corporate Day. While we expect business to remain under pressure in FY22E due to weak smartphone demand and Covid-19 lockdown impact, we are positive on growth in FY23E driven by: 1) Meta AR/VR sales opportunity; 2) EV battery business from CATL's aluminum parts; and 3) solid growth from Tongda Smart Tech in household & sports markets. We revised down our FY22-24E EPS by 11-32% to reflect FY22 weakness, and maintain BUY with new TP of HK\$0.22 (based on rollover 5x FY23E). Upcoming catalysts include Meta/Apple's AR/VR product launches.

- 2022 guidance: revenue to decline at single-digit.** Mgmt. guided sales will drop in 2022 due to smartphone shipment decline, and net profit will also remain under pressure due to pandemic lockdown impact on production and logistics efficiency. Overall, mgmt. believed FY22E will be a challenging year given smartphone weakness and transition into non-handset businesses.
- Handset casing: lower sales mix to reach 40%/30% in FY22/23E.** Mgmt. believed Chinese Android smartphone market will remain weak in 2H22E following decline in 2021. Mgmt. expected handset sales mix will be lowered to 40%/30% in FY22/23E (vs 50% in FY21). Following rapid capex investment into handset-related business since 2017, mgmt. guided CAPEX of HK\$600mn in 2022, mainly for non-handset business and factory upgrade.
- Non-handset to emerge as major growth drivers in FY23E. 1) AR/VR:** Tongda is set to penetrate into Apple and Meta's AR/VR device in 2023 with potential sales of RMB\$1bn (7% of sales); **2) Household & sports:** its subsidiary, Tongda Smart Tech, will focus on Industrial 4.0 household products with healthy profitability. Global customers, such as Ikea and Decathlon, will continue to drive steady growth in China & Southeast Asia; **3) EV battery business:** mgmt. expects sales to reach HK\$600mn/HK\$1bn in 2022/23E given rising pricing (CBD: cost break-down pricing). **4) Smart electrical appliances:** focus will shift to products with better margins.
- Beneficiary of RMB depreciation; Maintain BUY.** Tongda expects RMB depreciation will lead to sales increase (HKD denominated) and lower cost with RMB denominated raw materials for Ikea and Decathlon. We lowered FY22-24E EPS by 11-32% to reflect FY22 weakness, and maintain BUY with new TP of HK\$0.22 (based on rollover 5x FY23E).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	9,759	9,969	9,469	10,380	11,239
YoY growth (%)	6.2	2.2	(5.0)	9.6	8.3
Net income (HK\$ mn)	351	228	248	342	489
EPS (HK\$)	0.049	0.029	0.03	0.04	0.06
YoY growth (%)	(20.2)	(41.5)	8.5	37.9	43.2
Consensus EPS (HK\$)	0.051	0.029	0.035	0.044	n/a
P/E (x)	3.1	5.3	4.8	3.5	2.5
P/B (x)	0.1	0.1	0.1	0.1	0.1
Yield (%)	0.3	n/a	5.1	5.1	5.1
ROE (%)	5.3	2.8	2.9	3.9	5.4
Net gearing (%)	33	27	28	12	15

Source: Company data, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$0.22
(Previous TP)	HK\$0.23)
Upside	42%
Current Price	HK\$0.15

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### Stock Data

Mkt Cap (HK\$ mn)	1,477
Avg 3 mths t/o (HK\$ mn)	3.54
52w High/Low (HK\$)	0.46/ 0.11
Total Issued Shares (mn)	9,719

Source: Bloomberg

### Shareholding Structure

Landmark Worldwide	24.44%
Ya Nan Wang	7.79%
Dimensional Fund	1.44%

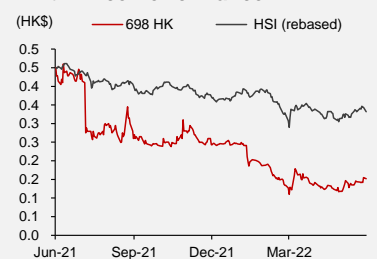
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	28.8%	21.7%
3-mth	13.4%	10.7%
6-mth	-41.5%	-33.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

## Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,469	10,380	11,239	10,944	11,878	12,787	-13%	-13%	-12%
Gross profit	1,574	1,731	1,989	1,841	2,100	2,310	-15%	-18%	-14%
Operating profit	332	432	603	480	605	699	-31%	-29%	-14%
Net profit	248	342	489	365	469	548	-32%	-27%	-11%
EPS (HK\$)	0.03	0.04	0.06	0.05	0.06	0.07	-32%	-27%	-11%
Gross margin	14.7%	14.6%	16.0%	15.3%	16.4%	17.1%	-0.6 ppt	-1.8 ppt	-1.1 ppt
Operating margin	1.3%	1.1%	2.8%	1.7%	3.2%	3.9%	-0.4 ppt	-2.1 ppt	-1.1 ppt
Net Margin	0.6%	0.7%	2.1%	0.7%	2.2%	2.8%	-0.1 ppt	-1.5 ppt	-0.7 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,469	10,380	11,239	10,468	11,754	12,610	-10%	-12%	-11%
Gross profit	1,574	1,731	1,989	1,759	2,080	2,282	-11%	-17%	-13%
Operating profit	332	432	603	414	501	588	-20%	-14%	3%
Net profit	248	342	489	314	397	460	-21%	-14%	6%
EPS (HK\$)	0.03	0.04	0.06	0.03	0.04	0.05	-9%	-2%	22%
Gross margin	14.7%	14.6%	16.0%	16.8%	17.7%	18.1%	-2.1 ppt	-3.1 ppt	-2.1 ppt
Operating margin	1.3%	1.1%	2.8%	4.0%	4.3%	4.7%	-2.7 ppt	-3.1 ppt	-1.9 ppt
Net Margin	0.6%	0.7%	2.1%	3.0%	3.4%	3.7%	-2.4 ppt	-2.7 ppt	-1.5 ppt

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

HK\$ mn	FY20	1H21	2H21	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
<b>Handsets</b>	<b>7,558</b>	<b>3,677</b>	<b>3,604</b>	<b>7,281</b>	<b>2,590</b>	<b>4,038</b>	<b>6,628</b>	<b>6,975</b>	<b>7,132</b>
...YoY	6%	17%	-18%	-4%	-30%	12%	-9%	5%	2%
Metal	890	375	375	750	204	374	579	536	486
...YoY	-42%	-4%	-25%	-16%	-45%	0%	-23%	-7%	-9%
Glastic	4,143	1,716	2,482	4,198	1,146	1,993	3,139	2,834	2,551
...YoY	25%	-3%	5%	1%	-33%	-20%	-25%	-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%
<b>Electrical appliances</b>	<b>688</b>	<b>322</b>	<b>214</b>	<b>536</b>	<b>338</b>	<b>214</b>	<b>552</b>	<b>586</b>	<b>633</b>
...YoY	10%	20%	-49%	-22%	5%	0%	3%	6%	8%
<b>Notebook computers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
...YoY	-	-	-	-	-	-	-	-	-
<b>Household goods</b>	<b>808</b>	<b>588</b>	<b>550</b>	<b>1,138</b>	<b>647</b>	<b>578</b>	<b>1,225</b>	<b>1,469</b>	<b>1,763</b>
...YoY	25%	103%	34%	41%	10%	5%	8%	20%	20%
<b>Network communications</b>	<b>704</b>	<b>528</b>	<b>486</b>	<b>1,014</b>	<b>479</b>	<b>585</b>	<b>1,064</b>	<b>1,349</b>	<b>1,711</b>
...YoY	-11%	87%	15%	44%	-9%	20%	5%	27%	27%
<b>Total</b>	<b>9,759</b>	<b>5,115</b>	<b>4,854</b>	<b>9,969</b>	<b>4,054</b>	<b>5,415</b>	<b>9,469</b>	<b>10,380</b>	<b>11,239</b>
...YoY	6%	28%	-14%	2%	-21%	12%	-5%	10%	8%

Source: Company data, CMBIGM estimates

Figure 4: P&amp;L forecast

HK\$ mn	FY20	1H20	2H20	FY21	1H22E	2H22E	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>9,759</b>	<b>5,115</b>	<b>4,854</b>	<b>9,969</b>	<b>4,054</b>	<b>5,415</b>	<b>9,469</b>	<b>10,380</b>	<b>11,239</b>
...YoY	6.2%	28.2%	-15.9%	2.2%	-20.7%	11.6%	-5.0%	9.6%	8.3%
Cost of sales	(8,048)	(4,346)	(3,983)	(8,329)	(3,460)	(4,435)	(7,895)	(8,649)	(9,251)
<b>Gross profit</b>	<b>1,710</b>	<b>770</b>	<b>871</b>	<b>1,640</b>	<b>594</b>	<b>980</b>	<b>1,574</b>	<b>1,731</b>	<b>1,989</b>
GPM (%)	17.5%	15.0%	17.9%	16.5%	14.7%	18.1%	16.6%	16.7%	17.7%
...YoY	2.0%	26.7%	-21.1%	-4.1%	-22.8%	12.6%	-4.0%	10.0%	14.9%
Selling Exp	(136)	(86)	(78)	(163)	(65)	(87)	(152)	(144)	(156)
...% 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)	(195)	(298)	(492)	(528)	(555)
...% of rev	-5.1%	-4.9%	-5.4%	-5.1%	-4.8%	-5.5%	-5.2%	-5.1%	-4.9%
<b>Operating profit</b>	<b>502</b>	<b>80</b>	<b>239</b>	<b>319</b>	<b>51</b>	<b>281</b>	<b>332</b>	<b>432</b>	<b>603</b>
OPM (%)	5.1%	1.6%	4.9%	3.2%	1.3%	5.2%	3.5%	4.2%	5.4%
...YoY	-14.3%	25.3%	-45.4%	-36.4%	-36.6%	17.6%	4.0%	30.1%	39.6%
<b>Net profit</b>	<b>351</b>	<b>54</b>	<b>174</b>	<b>228</b>	<b>24</b>	<b>224</b>	<b>248</b>	<b>342</b>	<b>489</b>
NPM (%)	3.6%	1.1%	3.6%	2.3%	0.6%	4.1%	2.6%	3.3%	4.4%
...YoY	-12.5%	86.9%	-46.0%	-35.1%	-55.6%	28.5%	8.5%	37.9%	43.2%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP of HK\$0.22 (42% upside)

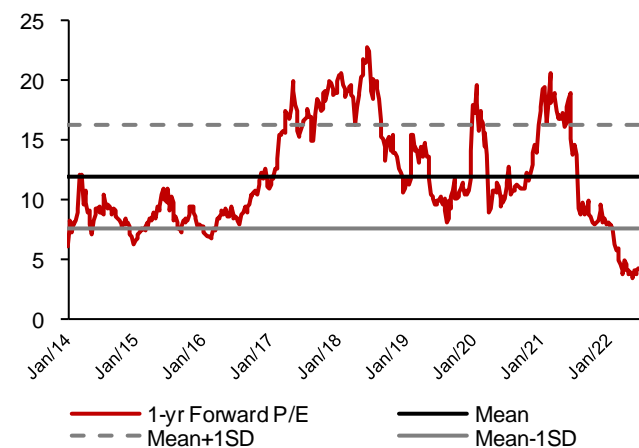
Our new TP of HK0.22 is based on rollovered same 5x FY23E P/E. We think current valuation of 4.8x/3.5x FY22E/23E P/E is attractive (well below 1-sd below hist. P/E) as we expect Tongda's earnings growth to resume 2H22E. Looking into FY23/24E, we believe Tongda will benefit from accelerated expansion 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
<b>HK-listed</b>												
Tongda	698 HK	Buy	188	0.15	0.22	42%	4.8	3.5	0.1	0.1	2.9	3.9
BYDE	285 HK	Hold	5,637	19.64	12.5	-37%	22.3	13.2	1.5	1.4	6.9	10.6
Ju Teng	3336 HK	NR	232	1.52	NA	NA	7.6	5.2	0.3	0.3	3.5	5.0
FIH	2038 HK	NR	1,046	1.03	NA	NA	18.7	11.9	0.5	0.5	2.7	4.0
<b>Average</b>							<b>12.9</b>	<b>8.2</b>	<b>0.6</b>	<b>0.6</b>	<b>4.2</b>	<b>6.0</b>
<b>China-listed</b>												
Everwin	300115 CH	NR	1,695	9.50	NA	NA	21.6	12.9	1.9	1.7	7.1	10.7
Janus	300083 CH	NR	2,402	10.48	NA	NA	18.1	13.2	4.0	3.0	23.0	24.5
<b>Average</b>							<b>19.8</b>	<b>13.0</b>	<b>2.9</b>	<b>2.4</b>	<b>15.1</b>	<b>17.6</b>
<b>Overseas-listed</b>												
Foxconn	2354 TT	NR	2,640	55.50	NA	NA	11.2	10.2	0.5	0.5	6.2	6.5
Casatek	5264 TT	NR	-	N/A	NA	NA	-	-	-	-	-	-
Catcher	2474 TT	NR	4,098	167.00	NA	NA	15.1	15.3	0.8	0.8	5.3	5.2
<b>Average</b>							<b>13.1</b>	<b>12.8</b>	<b>0.6</b>	<b>0.6</b>	<b>5.8</b>	<b>5.8</b>

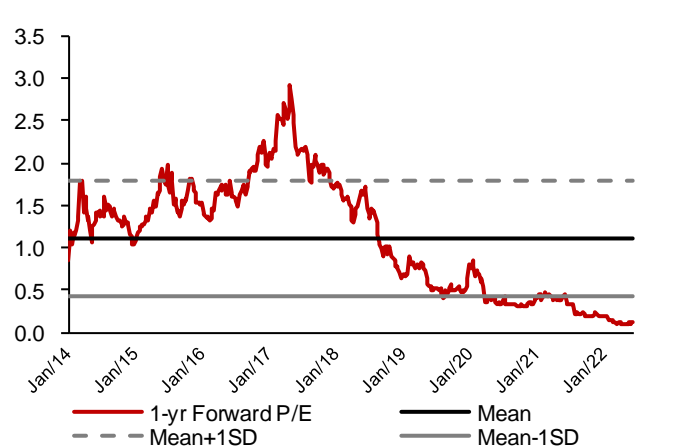
Source: Bloomberg, CMBIGM estimates

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)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>9,759</b>	<b>9,969</b>	<b>9,469</b>	<b>10,380</b>	<b>11,239</b>
COGS	(8,048)	(8,329)	(7,895)	(8,649)	(9,251)
<b>Gross profit</b>	<b>1,710</b>	<b>1,640</b>	<b>1,574</b>	<b>1,731</b>	<b>1,989</b>
Selling and marketing	(136)	(163)	(152)	(144)	(156)
Administrative	(1,050)	(1,176)	(1,019)	(1,094)	(1,163)
R&D					
Other operating exp.	(22)	18	(72)	(61)	(66)
<b>Operating profit</b>	<b>502</b>	<b>319</b>	<b>332</b>	<b>432</b>	<b>603</b>
Financial cost	(175)	(135)	(135)	(135)	(135)
Other income/(loss)	102	110	104	114	124
<b>Pre-tax profit</b>	<b>430</b>	<b>295</b>	<b>302</b>	<b>411</b>	<b>592</b>
Tax	(70)	(51)	(49)	(63)	(93)
Minority interest	8	15	5	7	10
<b>Net profit</b>	<b>351</b>	<b>228</b>	<b>248</b>	<b>342</b>	<b>489</b>

### Cash flow summary

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before taxation</b>	430	295	302	411	592
Depreciation	619	67	957	1,012	1,067
Change in working capital	253	(731)	(695)	565	(1,212)
Others	96	778	(67)	(80)	(128)
<b>Net cash from operating</b>	<b>1,397</b>	<b>408</b>	<b>498</b>	<b>1,908</b>	<b>319</b>
Capex	(1,176)	(900)	(600)	(600)	(600)
Other	318	(320)	18	17	35
<b>Net cash from investing</b>	<b>(858)</b>	<b>(1,220)</b>	<b>(582)</b>	<b>(583)</b>	<b>(565)</b>
Net borrowings	(223)	43	83	125	190
Dividend paid	(3)		(62)	(62)	(62)
Share issue/(repurchase)		752			
Other	(104)	(98)			
<b>Net cash from financing</b>	<b>(331)</b>	<b>696</b>	<b>21</b>	<b>63</b>	<b>128</b>
<b>Net change in cash</b>	<b>209</b>	<b>(115)</b>	<b>(63)</b>	<b>1,388</b>	<b>(118)</b>
Cash at beginning of the year	1,078	1,353	1,366	1,303	2,691
Exchange difference	66	129			
<b>Cash at the end of the year</b>	<b>1,353</b>	<b>1,366</b>	<b>1,303</b>	<b>2,691</b>	<b>2,573</b>

### Balance sheet

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>7,658</b>	<b>9,354</b>	<b>8,490</b>	<b>11,386</b>	<b>10,869</b>
Cash & equivalents	1,353	1,366	1,303	2,691	2,573
Account receivables	2,993	3,317	2,676	3,893	3,220
Inventories	2,204	3,177	3,017	3,308	3,581
Prepayments	486	523	523	523	523
Other current assets	622	971	971	971	971
<b>Non-current assets</b>	<b>6,642</b>	<b>7,402</b>	<b>7,044</b>	<b>6,632</b>	<b>6,166</b>
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
<b>Total assets</b>	<b>14,300</b>	<b>16,755</b>	<b>15,534</b>	<b>18,018</b>	<b>17,034</b>
<b>Current liabilities</b>	<b>6,212</b>	<b>7,720</b>	<b>6,293</b>	<b>8,468</b>	<b>7,013</b>
ST borrowings	2,228	2,931	2,999	3,102	3,258
Account payables	3,207	3,772	2,277	4,350	2,739
Other current liabilities	777	1,016	1,016	1,016	1,016
<b>Non-current liabilities</b>	<b>1,422</b>	<b>814</b>	<b>829</b>	<b>851</b>	<b>885</b>
LT borrowings	1,300	639	654	676	710
Other non-current liabilities	123	175	175	175	175
<b>Total liabilities</b>	<b>7,634</b>	<b>8,534</b>	<b>7,122</b>	<b>9,319</b>	<b>7,898</b>
Share capital	65	97	97	97	97
Reserves	6,553	8,063	8,249	8,529	8,956
Minority interest	49	61	66	73	83
<b>Shareholders' equity</b>	<b>6,666</b>	<b>8,221</b>	<b>8,413</b>	<b>8,699</b>	<b>9,137</b>
<b>Total equity and liabilities</b>	<b>14,300</b>	<b>16,755</b>	<b>15,534</b>	<b>18,018</b>	<b>17,034</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Handsets	77	73	70	67	63
Electrical Appliances	7	5	6	6	6
Notebook Computers	0	0	0	0	0
Household and sports goods	8	11	13	14	16
Network comm,	7	10	11	13	15
<b>Growth (%)</b>					
Revenue	6	2	(5)	10	8
Gross profit	2	(4)	(4)	10	15
Operating profit	(14)	(36)	4	30	40
Net profit	(12)	(35)	9	38	43
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	17.5	16.5	16.6	16.7	17.7
Operating margin	5.1	3.2	3.5	4.2	5.4
Net profit margin	3.6	2.3	2.6	3.3	4.4
<b>Balance sheet ratio</b>					
Net debt/total equity (x)	0.3	0.3	0.3	0.1	0.2
Current ratio (x)	1.2	1.2	1.3	1.3	1.5
Receivable turnover days	111	116	116	116	116
Inventory turnover days	101	118	143	133	136
Payable turnover days	140	153	140	140	140
<b>Profitability (%)</b>					
ROE	5.3	2.8	2.9	3.9	5.4
ROA	2.5	1.4	1.6	1.9	2.9
<b>Per share data (HK\$)</b>					
EPS	0.049	0.029	0.031	0.043	0.062
DPS	0.00	0.00	0.01	0.01	0.01

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

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