

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

China Technology Sector

Alex Ng
 (852) 3900 0881
 alexng@cmbi.com.hk

Lily Yang
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Hanqing Li
 lihanqing@cmbi.com.hk

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
Handsets	7,558	3,677	3,604	7,281	2,590	4,038	6,628	6,975	7,132
...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%
Electrical appliances	688	322	214	536	338	214	552	586	633
...YoY	10%	20%	-49%	-22%	5%	0%	3%	6%	8%
Notebook computers	-	-	-	-	-	-	-	-	-
...YoY	-	-	-	-	-	-	-	-	-
Household goods	808	588	550	1,138	647	578	1,225	1,469	1,763
...YoY	25%	103%	34%	41%	10%	5%	8%	20%	20%
Network communications	704	528	486	1,014	479	585	1,064	1,349	1,711
...YoY	-11%	87%	15%	44%	-9%	20%	5%	27%	27%
Total	9,759	5,115	4,854	9,969	4,054	5,415	9,469	10,380	11,239
...YoY	6%	28%	-14%	2%	-21%	12%	-5%	10%	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	4,054	5,415	9,469	10,380	11,239
...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)
Gross profit	1,710	770	871	1,640	594	980	1,574	1,731	1,989
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%
Operating profit	502	80	239	319	51	281	332	432	603
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%
Net profit	351	54	174	228	24	224	248	342	489
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)

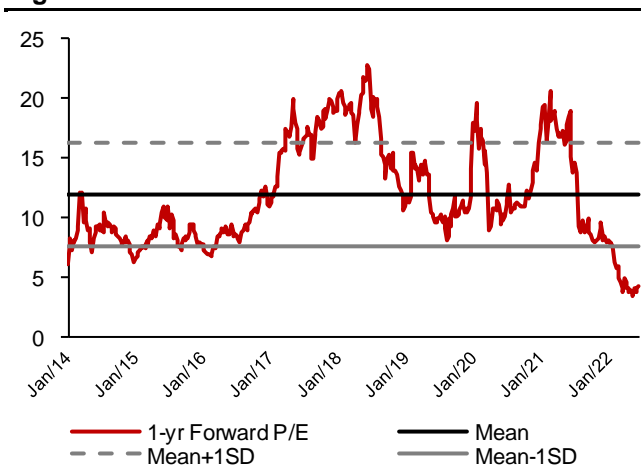
Our new TP of HK0.22 is based on rolloverd same 5x FY23E P/E. We think current valuation of 4.8x/3.5x FY22E/23E P/E is attractive (well below 1-sd below hist. P/E) as we expect Tongda's earnings growth to resume 2H22E. Looking into FY23/24E, we believe Tongda will benefit from accelerated expansion into 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
HK-listed												
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
Average							12.9	8.2	0.6	0.6	4.2	6.0
China-listed												
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
Average							19.8	13.0	2.9	2.4	15.1	17.6
Overseas-listed												
Foxconn	2354 TT	NR	2,640	55.50	NA	NA	11.2	10.2	0.5	0.5	6.2	6.5
Casetek	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
Average							13.1	12.8	0.6	0.6	5.8	5.8

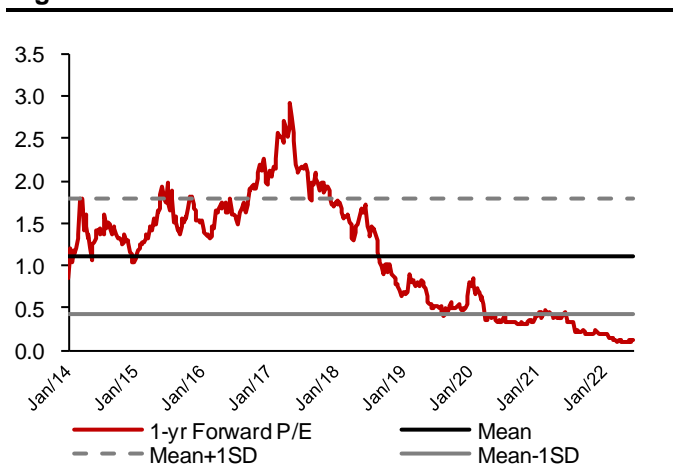
Source: Bloomberg, CMBIGM estimates

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
Revenue	9,759	9,969	9,469	10,380	11,239
COGS	(8,048)	(8,329)	(7,895)	(8,649)	(9,251)
Gross profit	1,710	1,640	1,574	1,731	1,989
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)
Operating profit	502	319	332	432	603
Financial cost	(175)	(135)	(135)	(135)	(135)
Other income/(loss)	102	110	104	114	124
Pre-tax profit	430	295	302	411	592
Tax	(70)	(51)	(49)	(63)	(93)
Minority interest	8	15	5	7	10
Net profit	351	228	248	342	489

Cash flow summary

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before taxation	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)
Net cash from operating	1,397	408	498	1,908	319
Capex	(1,176)	(900)	(600)	(600)	(600)
Other	318	(320)	18	17	35
Net cash from investing	(858)	(1,220)	(582)	(583)	(565)
Net borrowings	(223)	43	83	125	190
Dividend paid	(3)		(62)	(62)	(62)
Share issue/(repurchase)		752			
Other	(104)	(98)			
Net cash from financing	(331)	696	21	63	128
Net change in cash	209	(115)	(63)	1,388	(118)
Cash at beginning of the year	1,078	1,353	1,366	1,303	2,691
Exchange difference	66	129			
Cash at the end of the year	1,353	1,366	1,303	2,691	2,573

Balance sheet

YE 31 Dec (HK\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	7,658	9,354	8,490	11,386	10,869
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
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	15,534	18,018	17,034
Current liabilities	6,212	7,720	6,293	8,468	7,013
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
Non-current liabilities	1,422	814	829	851	885
LT borrowings	1,300	639	654	676	710
Other non-current liabilities	123	175	175	175	175
Total liabilities	7,634	8,534	7,122	9,319	7,898
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
Shareholders' equity	6,666	8,221	8,413	8,699	9,137
Total equity and liabilities	14,300	16,755	15,534	18,018	17,034

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
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
Growth (%)					
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
Profit & loss ratio (%)					
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
Balance sheet ratio					
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
Profitability (%)					
ROE	5.3	2.8	2.9	3.9	5.4
ROA	2.5	1.4	1.6	1.9	2.9
Per share data (HK\$)					
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

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
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

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.