

Tongda (698 HK)

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Company Update

BUY
UNCHANGED
Close price: HK\$2.16
Target Price: HK\$3.52 (+63%)
Prior TP: HK\$3.00

Key Data

HKEx code	698
12 Months High (HK\$)	1.54
12 Month Low (HK\$)	82.86
3M Avg Dail Vol. (mn)	6,051.73
Issue Share (mn)	13,071.73
Market Cap (HK\$mn)	1.54
Fiscal Year	12/2015
Major shareholder (s)	Landmark worldwide (29.85%)

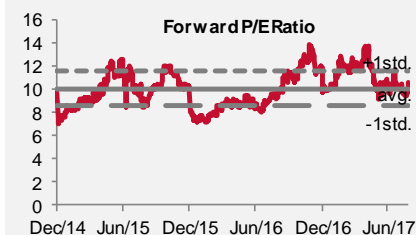
Source: Company data, Bloomberg, OP Research
Closing price are as of 25/08/2017

Price Chart



	1mth	3mth	6mth
Absolute %	-6.5	-5.6	-14.7
Rel. MSCI CHINA %	-11.2	-18.8	-39.7

PE



Company Profile

Tongda Group Holdings Ltd is a one-stop service provider of consumer electronics casing products. The Group has established a solid presence in handset, notebook computer casings, electrical appliances, and related products.,

1H17 miss on one-off items

- **Tongda released its 1H17 results with sales up 12% yoy to HK\$3.6bn and net profit down 24% yoy to HK\$290mn, miss market expectations, mainly due to a one-off provision item of HK\$79.3mn impairment allowance on LeTV and Coolpad and rapid increase in R&D expenses.**
- **We revise down our FY17/18E earnings estimate by 11.7%/3.4% to HK\$1.13bn/HK\$1.49bn.**
- **Reiterate BUY with TP revised up to HK\$3.52 based on roll forward 15x FY18E PE given our belief that the negative factor had already been priced-in.**

1H17 results miss on one-off items. Tongda released its 1H17 results with sales up 12% yoy to HK\$3.6bn, of which handsets segment up 12.7% yoy to HK\$2.4bn, while Ironware Parts down 32.8% yoy to HK\$132mn mainly due to re-allocation of factory and mgmt guided 2H17E will continue the declining trend and pick up in FY18E. Management also guided low teen revenue growth for FY17E. 1H17 GPM was improved by 1ppt yoy to 25.4% mainly due to increasing contribution from high margin metal casing business. Net profit was down 24% yoy to HK\$290mn, mainly due to HK\$43.9mn/ HK\$9.9mn impairment of trade receivable/other receivables as well as rapid increase in R&D from HK\$70mn a year ago to HK\$167mn. We believe the impairment item is one-off and we are confident Tongda is able to regain its earnings growth momentum from FY18E onwards driven by the order ramp up from its US customer on water-proof components.

Revise down our FY17/18E earnings estimate by 11.7%/3.4% to HK\$1.13bn/HK\$1.49bn. We revise down our FY17/18E revenue estimates by 10.8%/6.5% to HK\$8.7bn/HK\$10.6bn to reflect lower 3D Glass Casing contribution due to slower than expected ramp up. We keep our GPM assumption flat at 25.8%/26.0% for FY17/18E. We revise down our FY17/18E earnings estimate by 12.5%/3.4% to reflect one-off impairment expenses in FY17E.

Reiterate BUY on undemanding valuation. We reiterate our BUY rating on Tongda with TP revised up from HK\$3.00 to HK\$3.52 based on roll forward 15x FY18E PE (previous 15x FY17E PE) given (1) the negative one off impairment expense has been priced-in, (2) solid ramp up of US customer order on water proof component, (3) 3D glass casing revenue will kick off its growth momentum as Apple is likely to launch the 3D glass iPhone 8 model in late FY17E.

Risks: 1) lower than expected smartphone shipments growth, especially China smartphone; 2) ASP erosion and margin squeeze of metal casing, 3D glass casing and waterproof component; 3) lower than expected 3D glass casing and waterproof components adoption.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	6,074	7,825	8,715	10,555	13,180
Growth (%)	26.8	28.8	11.4	21.1	24.9
Net Profit	702.8	1,004.0	1,127.9	1,493.5	1,957.5
Growth (%)	40.1	42.8	12.3	32.4	31.1
Diluted EPS (HK\$)	0.119	0.158	0.177	0.235	0.308
EPS growth (%)	27.9	32.8	12.3	32.4	31.1
Change to previous EPS (%)			(11.7)	(2.6)	
Consensus EPS (HK\$)			0.204	0.256	0.310
ROE (%)	18.4	23.1	22.1	24.5	26.4
P/E (x)		15.9	14.2	10.7	8.2
P/B (x)	3.5	3.1	2.8	2.3	1.9
Yield (%)	1.5	2.1	2.1	2.8	3.7
DPS (HK\$)	0.037	0.052	0.053	0.070	0.092

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(RMB mn)	FY17E			FY18E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Shipments (mn units)							
Handset casings	89	89	0.0	100	100	0.0	
-Handset metal casings	80	80	0.0	92	92	0.0	
-Handset non-metal casings	9	9	0.0	8	8	0.0	
Waterproof	70	70	0.0	77	77	0.0	
3D Glass casing	1	2	(50.0)	6	6	0.0	Mainly to reflect slower than expected ramp up
ASP (HK\$)							
Handset casings	62	71	(12.2)	62	67	(7.6)	Mainly due to shifting to lower ASP Xiaomi order
-Handset metal casings	66	76	(12.6)	65	71	(7.8)	
-Handset non-metal casings	27	27	0.0	22	22	0.0	
Waterproof	10	10	0.0	16	16	0.0	
3D Glass casing	195	195	0.0	176	176	0.0	
Revenue by segment (HK\$ mn)							
Electrical fittings	7,337	8,157	(10.1)	8,985	9,493	(5.3)	
Handsets casing	5,535	6,301	(12.2)	6,191	6,699	(7.6)	
Electrical appliances	569	569	0.0	541	541	0.0	
Notebook computers	328	188	75.0	-	-	0.0	Mainly reflect delay in spinoff
3D glass casings	195	390	(50.0)	1,053	1,053	0.0	
Waterproof internal component	710	710	0.0	1,201	1,201	0.0	
Ironware parts	341	577	(40.9)	375	606	(38.1)	Mainly due to reallocation of factory
Communication facilities and others	1,038	1,038	0.0	1,194	1,194	0.0	
Revenue	8,715	9,771	(10.8)	10,555	11,293	(6.5)	
Gross profit	2,247	2,462	(8.7)	2,743	2,901	(5.4)	
Gross margin	25.8%	25.2%	0.6	26.0%	25.7%	0.3	
Opex	(910)	(913)	(0.4)	(971)	(1,046)	(7.2)	
EBIT	1,429	1,618	(11.7)	1,867	1,925	(3.1)	
Net Profit	1,128	1,289	(12.5)	1,493	1,546	(3.4)	
Diluted EPS (HK\$)	0.177	0.201	(11.7)	0.235	0.241	(2.6)	

Source: OP Research

Exhibit 3: Result summary

HK\$ mn	1H13	2H13	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17E	1H17 YoY
Revenue	1,690	1,937	2,101	2,690	2,881	3,193	3,239	4,586	3,618	4,957	12%
COGS	(1,334)	(1,495)	(1,619)	(2,029)	(2,204)	(2,358)	(2,449)	(3,491)	(2,699)	(3,709)	10%
Gross profit	356	442	482	661	678	834	790	1,095	920	1,247	16%
Other income & gains	15	32	0	26	18	8	11.11	86	51	42	358%
Selling exp	(40)	(39)	(43)	(69)	(75)	(73)	(61)	(60)	(60)	(67)	-1%
Admin exp	(129)	(149)	(177)	(153)	(176)	(269)	(256)	(301)	(395)	(338)	54%
Other opex	(5)	(16)	0	(27)	(6)	(10)	6.19	(41)	(89)	50	-1535%
Operating profit (EBIT)	197	270	262	439	438	490	490	778	426	934	-13%
Provisions or other items	0	0	0	0	0	0	0	0	0	0	n.a.
Finance costs	(21)	(30)	(27)	(30)	(27)	(29)	(34)	(44)	(43)	(45)	24%
Profit after financing costs	175	240	235	409	411	461	456	735	383	889	-16%
Associated cos	(0)	(0)	(0)	(2)	(0)	0	0	(0)	0	0	-100%
Jointly controlled cos	0	0	0	0	0	0	1	5	2	4	140%
Pre-tax profit	175	240	235	407	411	461	457	740	386	893	-16%
Tax	(37)	(9)	(48)	(47)	(81)	(53)	(82)	(94)	(86)	(105)	5%
Minority interests	(8)	(1)	(20)	(26)	(36)	0	5	(21)	(9)	(9)	-284%
Net profit	130	230	167	335	294	409	380	624	290	780	-24%
HoH%											
Revenue		15%	8%	28%	7%	11%	1%	42%	-21%	37%	
Gross profit		24%	9%	37%	2%	23%	-5%	39%	-16%	36%	
Net profit		76%	-27%	100%	-12%	39%	-7%	64%	-53%	168%	
YoY%											
Revenue			24%	39%	37%	19%	12%	44%	12%	8%	
Gross profit			36%	49%	40%	26%	17%	31%	16%	14%	
Net profit			28%	46%	76%	22%	29%	53%	-24%	25%	
Key ratios											
GPM	21.0%	22.8%	23.0%	24.6%	23.5%	26.1%	24.4%	23.9%	25.4%	25.2%	
Selling exp	2.3%	2.0%	2.0%	2.6%	2.6%	2.3%	1.9%	1.3%	1.7%	1.4%	
Admin exp	7.6%	7.7%	8.4%	5.7%	6.1%	8.4%	7.9%	6.6%	10.9%	6.8%	
EIT	21.2%	3.7%	20.2%	11.4%	19.7%	11.6%	18.0%	12.8%	22.5%	11.8%	
Net margin	7.7%	11.9%	8.0%	12.4%	10.2%	12.8%	11.7%	13.6%	8.0%	15.7%	

Source: Company, OP Research

Financial Summary

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Income Statement (HK\$ mn)					
Electrical fittings	4,780	6,439	7,337	8,985	11,438
Ironware parts	472	524	341	375	394
Communication facilities and others	822	861	1,038	1,194	1,349
Turnover	6,074	7,825	8,715	10,555	13,180
YoY%	27	29	11	21	25
COGS	(4,562)	(5,940)	(6,469)	(7,812)	(9,683)
Gross profit	1,512	1,885	2,247	2,743	3,498
Gross margin	24.9%	24.1%	25.8%	26.0%	26.5%
Other income	26	97	93	95	97
Selling & distribution	(149)	(121)	(129)	(155)	(191)
Admin	(445)	(558)	(742)	(769)	(923)
R&D	0	0	0	0	0
Other opex	(16)	(35)	(39)	(47)	(59)
Total opex	(610)	(714)	(910)	(971)	(1,173)
Operating profit (EBIT)	928	1,269	1,429	1,867	2,422
Operating margin	15.3%	16.2%	16.4%	17.7%	18.4%
Provisions	0	0	0	0	0
Finance costs	(56)	(78)	(88)	(88)	(88)
Profit after financing costs	873	1,190	1,342	1,779	2,334
Associated companies & JVs	(0)	6	6	6	6
Pre-tax profit	872	1,197	1,348	1,785	2,340
Tax	(134)	(176)	(201)	(267)	(350)
Profit from discontinued operations	0	0	0	0	0
Minority interests	(35)	(16)	(19)	(25)	(32)
Net profit	703	1,004	1,128	1,493	1,958
YoY%	40	43	12	32	31
Net margin	11.6%	12.8%	12.9%	14.1%	14.9%
EBITDA	1,126	1,535	1,839	2,343	2,967
EBITDA margin	18.5%	19.6%	21.1%	22.2%	22.5%
EPS (HK\$)	0.119	0.158	0.177	0.235	0.308
YoY%	28	33	12	32	31
DPS (HK\$)	0.037	0.052	0.053	0.070	0.092
Cash Flow (HK\$ mn)					
EBITDA	1,126	1,535	1,839	2,343	2,967
Chg in working cap	(472)	(199)	(345)	(695)	(995)
Others	39	(15)	0	0	0
Operating cash	693	1,321	1,494	1,648	1,972
Tax	(106)	(137)	(221)	(201)	(267)
Net cash from operations	588	1,184	1,273	1,447	1,705
Capex	(986)	(807)	(784)	(739)	(791)
Investments	0	(61)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	1	11	0	0	0
Interests received	8	4	4	5	6
Others	(304)	(477)	0	0	0
Investing cash	(1,282)	(1,330)	(780)	(734)	(784)
FCF	(694)	(146)	493	713	920
Issue of shares	0	32	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(201)	(235)	(282)	(353)	(466)
Net change in bank loans	516	604	0	0	0
Interests paid	(56)	(75)	(88)	(88)	(88)
Others	902	0	0	0	0
Financing cash	1,161	327	(369)	(441)	(554)
Net change in cash	467	181	124	272	367
Exchange rate or other Adj	(65)	(74)	0	0	0
Opening cash	360	762	869	993	1,266
Closing cash	762	869	993	1,266	1,632
CFPS (HK\$)	0.099	0.186	0.200	0.227	0.268

Source: Company, OP Research

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Ratios					
Gross margin (%)	24.9	24.1	25.8	26.0	26.5
Operating margin (%)	15.3	16.2	16.4	17.7	18.4
Net margin (%)	11.6	12.8	12.9	14.1	14.9
Selling & dist'n exp/Sales (%)	2.4	1.5	1.5	1.5	1.4
Admin exp/Sales (%)	7.3	7.1	8.5	7.3	7.0
Payout ratio (%)	31.1	32.9	30.0	30.0	30.0
Effective tax (%)	15.4	14.8	15.0	15.0	15.0
Total debt/equity (%)	58.9	64.9	54.9	45.5	37.1
Net debt/equity (%)	35.6	40.6	32.1	22.5	13.9
Current ratio (x)	1.8	1.5	1.6	1.7	1.8
Quick ratio (x)	1.3	1.1	1.2	1.3	1.4
Inventory T/O (days)	128	107	107	107	107
AR T/O (days)	161	157	157	157	157
AP T/O (days)	126	133	133	133	133
Cash conversion cycle (days)	164	131	131	131	131
Asset turnover (x)	0.8	0.8	0.8	0.8	0.9
Financial leverage (x)	2.0	2.2	2.2	2.1	2.0
EBIT margin (%)	15.3	16.2	16.4	17.7	18.4
Interest burden (x)	0.9	0.9	0.9	1.0	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	18.4	23.1	22.1	24.5	26.4
ROIC (%)	16.3	18.0	17.5	20.5	23.4
Balance Sheet (HK\$ mn)					
Fixed assets	2,740	3,555	3,930	4,187	4,426
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	3	64	70	77	83
Long-term investments	0	0	0	0	0
Other non-current assets	311	257	257	257	257
Non-current assets	3,054	3,876	4,258	4,521	4,766
Inventories	1,606	1,740	1,895	2,288	2,836
AR	2,683	3,362	3,744	4,535	5,663
Prepayments & deposits	301	411	457	554	691
Other current assets	183	333	333	333	333
Cash	762	869	993	1,266	1,632
Current assets	5,535	6,714	7,422	8,975	11,155
AP	1,572	2,156	2,348	2,836	3,515
Tax	192	221	201	267	350
Accruals & other payables	324	415	462	559	698
Bank loans & leases	976	1,490	1,490	1,490	1,490
CB & othe debts	0	51	51	51	51
Other current liabilities	0	0	0	0	0
Current liabilities	3,065	4,333	4,553	5,203	6,105
Bank loans & bonds	519	610	610	610	610
CB & leases	873	877	877	877	877
Deferred tax & others	92	105	105	105	105
MI	18	(2)	17	41	74
Non-current liabilities	1,502	1,589	1,608	1,632	1,665
Total net assets	4,021	4,668	5,519	6,660	8,151
Shareholder's equity	4,021	4,668	5,519	6,660	8,151
Share capital	57	58	58	58	58
Reserves	3,964	4,610	5,462	6,602	8,094
BVPS (HK\$)	0.68	0.72	0.81	0.91	1.10
Total debts	2,369	3,028	3,028	3,028	3,028
Net cash/(debts)	(1,433)	(1,896)	(1,772)	(1,500)	(1,133)

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	3-mth			EPS		EPS		3-Yr EPS Cagr (%)	PEG (x)	Div yld (%)	Div yld (%)	P/B	P/B FY1 (x)	EV/		Net gearing	Gross margin	Net margin	ROE (%)	ROE (%)	Sh px	
			Mkt cap (US\$m)	avg t/o (US\$m)	PER	PER	PER	FY1 YoY%	FY2 YoY%							Ebitda Hist	Ebitda Cur Yr						Hist (%)	Hist (%)
Tongda Group Hld	698 HK	2.16	1,671	23.5	15.9	14.2	10.7	12.3	32.4	29.4	0.48	2.1	2.1	3.11	2.75	10.7	9.2	40.6	24.1	12.8	23.1	22.1	-14.7	-13.5
HSI		27848.16			14.2	13.1	12.0	8.4	9.0	9.1	1.44	3.3	3.3	1.37	1.32						9.6	10.1	2.5	7.4
HSCEI		11288.36			9.3	8.8	8.1	6.2	8.9	8.4	1.05	3.5	3.4	1.09	1.00						11.7	11.3	4.7	6.8
CSI300		3795.75			16.6	14.6	12.9	13.2	13.2	9.6	1.53	1.9	2.0	1.98	1.81						11.9	12.4	2.0	8.9
Adjusted sector avg*					19.2	17.0	13.7	32.6	23.4	21.3	0.68	2.5	2.4	2.49	2.19	8.6	10.3	1.6	21.4	12.0	10.5	14.9	3.9	25.2
Byd Electronic	285 HK	22.20	6,393	25.2	34.4	19.8	15.5	73.6	27.4	39.8	0.50	0.7	1.0	3.63	3.12	13.1	10.0	0.0	7.6	3.4	11.1	16.5	13.8	54.2
Fih Mobile Ltd	2038 HK	2.46	2,510	2.5	17.8	N/A	14.3	N/A	N/A	16.5	N/A	5.6	3.2	0.75	0.75	1.3	15.1	0.0	5.5	2.2	-2.3	-4.5	-7.9	-0.8
Aac Technologies	2018 HK	123.30	19,256	75.1	32.0	24.3	19.9	31.9	21.9	23.8	1.02	1.2	1.6	8.61	7.22	23.3	17.9	11.1	41.5	26.0	36.0	32.4	15.8	49.3
Cowell	1415 HK	3.18	338	9.4	12.0	6.7	5.4	79.4	23.0	30.8	0.22	3.0	3.2	1.11	0.98	5.4	3.7	0.0	8.3	3.1	11.9	15.1	-3.0	46.5
Catcher Tech	2474 TT	387.50	9,882	55.6	13.6	13.0	10.5	4.4	23.6	13.7	0.95	2.6	2.7	2.56	2.15	6.3	5.5	0.0	43.5	27.8	17.6	17.9	5.0	20.0
Casetek Holdings	5264 TT	103.50	1,164	12.3	12.5	13.0	10.7	-3.3	21.4	6.1	2.14	7.7	3.9	1.30	1.19	4.2	4.0	0.0	19.3	8.6	7.8	9.2	5.3	9.5
Foxconn Technolo	2354 TT	95.00	4,448	28.1	12.5	12.6	12.0	-1.0	5.7	-1.8	N/A	4.0	3.4	1.08	1.13	7.0	6.7	0.0	18.2	13.4	7.8	9.7	3.4	8.2
Shenzhen Everw-A	300115 CH	32.31	4,377	40.2	42.5	29.7	21.0	43.2	41.4	41.8	0.71	0.5	0.6	7.04	6.00	28.2	19.3	24.0	27.5	11.2	19.7	20.8	-1.1	14.5

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
18/08/2017	Kingdee Intl	268	1H17 results up to expectations	BUY	Yuji Fung
18/08/2017	Ju Teng Intl	3336	1H17 results come up short	BUY	Yuji Fung
18/08/2017	Sunny Optical	2382	1H17 results solid surge on margin	BUY	Yuji Fung
14/08/2017	Q Tech	1478	1H17 up on GPM and ASP	BUY	Yuji Fung
09/08/2017	TCL Multimedia	1070	1H17 results in line	BUY	Yuji Fung
08/08/2017	CH Display OPT	334	1H17 Results beat expectations	BUY	Yuji Fung
07/08/2017	Dynagreen Environmental	1330	Tongzhou Phase Two off launch-pad	BUY	Bruce Yeung
27/07/2017	China Securities Sector	-	Preliminary 1H17 results	BUY	Bruce Yeung/Daisy Wang
20/07/2017	Canvest	1381	Fast and Fabulous	BUY	Bruce Yeung/Daisy Wang
11/07/2017	Dynagreen Environmental	1330	Positive catalyst ahead	BUY	Bruce Yeung/Daisy Wang
30/06/2017	GTJA	2611	Catching the momentum	BUY	Bruce Yeung/Daisy Wang
28/06/2017	Chinasoft Intl	354	1H17E result preview	BUY	Yuji Fung
13/06/2017	Q Tech	1478	Product mix continues to improve in May	BUY	Yuji Fung
12/06/2017	CH Display OPT	334	Promising prospects from share deal	BUY	Yuji Fung
12/06/2017	Sunny Optical	2382	Momentum in May pushes shipment	BUY	Yuji Fung
31/05/2017	Truly Intl	732	1Q17 results up to expectations	BUY	Yuji Fung
26/05/2017	C Cheng	1486	Le Mariage	BUY	Bruce Yeung
11/05/2017	Q Tech	1478	CCM shipment growth accelerated in April	BUY	Chloe Liu/Yuji Fung
11/05/2017	China Securities Sector	-	1Q17 review looking rosy	BUY	Bruce Yeung/Daisy Wang
10/05/2017	Sunny Optical	2382	Strong growth in April HLS shipments	BUY	Chloe Liu/Yuji Fung
09/05/2017	Kingdom Holdings	528	Heilongjiang plant kicks off in 3Q17E	HOLD	Bruce Yeung
08/05/2017	HNA Holding	521	Transforming story for OBOR	NR	Bruce Yeung/Daisy Wang
08/05/2017	Truly Intl	732	April sales in line	BUY	Chloe Liu/Yuji Fung
28/04/2017	TCL Multimedia	1070	Solid 1Q17 results	BUY	Chloe Liu/Yuji Fung
27/04/2017	China Securities Sector	-	Geared for 2017	BUY	Bruce Yeung/Daisy Wang
12/04/2017	Chunli Medical	1858	Transition on the way	BUY	Chloe Liu/Yuji Fung
11/04/2017	Sunny Optical	2382	Robust growth continues in Mar17	HOLD	Chloe Liu/Yuji Fung

Historical recommendations and target price: Tongda (698 HK)

(as of 25/08/2017)



	DATE	RATING	TP	CLOSE	DATE	RATING	TP	CLOSE
1	08 Nov 2016	BUY	2.75	2.06	9			
2	22 Mar 2017	BUY	3.00	3.59	10			
3					11			
4					12			
5					13			
6					14			
7					15			
8					16			

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