ORIENTAL PATRON

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Equity Research
TMT/ China

Tongda (698 HK)

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Company Update

BUY

UNCHANGED

Close price:	**HK$0.85**
Target Price:	**HK$1.20(+41%)**
Prior TP:	**HK$1.07**

Key Data

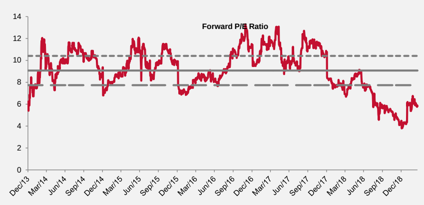
HKEx code		698
12 Months High	(HK$)	2.09
12 Month Low	(HK$)	0.72
3M Avg Dail Vol.	(mn)	80.25
Issue Share	(mn)	6,479.51
Market Cap	(HK$mn)	5,507.58
Fiscal Year		12/2018
Major shareholder (s)		Landmark worldwide (23.60%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 20/03/2019

Price Chart

	1mth	3mth	6mth
Absolute %	**-1.2**	**10.4**	**-24.8**
Rel. MSCI CHINA %	**-7.5**	**-9.9**	**-30.0**

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.,

GPM likely bottom out in FY18

- **Tongda released FY18 results with revenue/net earnings up3.9%/down 46% yoy to HK$8.9bn/HK$543mn.**
- **We fine tune our FY19/20E earnings estimate by +1.5%/+8.7% to HK$891mn/HK$1,223mn to reflect lower margin on casing business.**
- **Maintain BUY with TP revised up to HK$1.20 from HK$1.07 based on same 9x FY19E PE.**

GPM likely bottom out. Tongda released FY18 results with revenue up 3.9% to HK$8.9bn. If stripping off the impact of notebook business which got spinned-off during the year, yoy growth in total revenue should be 10.4%. Tri-proof products and vehicle-related products both saw 100% yoy growth in FY18, and both are expected to see another 100% yoy increase in FY19E. GPM dropped 5.9ppts to 20.2% from 26.1% in FY17, which includes ~2ppts impact from HK$220mn inventory impairment and the sharp decline in metal casing products (from over 20% in 4Q17 to as low as HSD in 4Q18). We believe Tongda's GPM has bottomed out in 2H18 (~17.6%) and will see recovery in FY19E thanks to (1) absence of inventory impairment; (2) high margin glastic casing offsetting the drop in metal casing GPM; (3) greater revenue contribution from tri-proof business (from high-teens contribution in FY18 to over 25% in FY19E according to our estimation)

The company proposed a final dividend of HK2.8cents, implying a full-year payout of 32%.

We tune up our FY19/20E earnings estimate by 1.5%/8.7% to HK$891mn/HK$1,223mn. We revise up our FY19/20E revenue by 13.9%/14.9% to HK$11.5bn/HK$13.9bn to the promising growth outlook in glastic casing shipments. We revise up our FY19/20E GPM assumption by 0.5ppts/1.0ppts to 22.5%/23.6% as we expect high margin for glastic casing and water proof products will compensate for the margin shrinkage in metal casing. As a result, we revise up our FY19/20E fully diluted EPS by 1.5%/8.7% to HK$0.136/HK$0.187.

Maintain BUY. We maintain our BUY rating on Tongda with TP revised up to HK$1.20 from HK$1.07 based on same 9x FY19E PE. We have not yet factored in the potential contribution of 5G dipole antenna business in our current forecast.

Risks: 1) faster-than-expected ASP erosion on IMT casing; 2) slower than expected shipments growth

Exhibit 1: Forecast and Valuation

Year to Dec (HK$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	8,563	8,899	11,532	13,857	17,073
Growth (%)	9.4	3.9	29.6	20.2	23.2
Net Profit	1,006.2	542.8	890.9	1,223.1	1,649.9
Growth (%)	0.2	(46.1)	64.1	37.3	34.9
Diluted EPS (HK$)	0.159	0.088	0.136	0.187	0.252
EPS growth (%)	0.8	(45.0)	55.5	37.3	34.9
Change to previous EPS (%)			1.5	8.7	
Consensus EPS (HK$)			0.146	0.173	N/A
ROE (%)	19.2	9.2	14.2	17.4	20.5
P/E (x)		9.7	6.2	4.5	3.4
P/B (x)	0.9	0.9	0.8	0.7	0.6
Yield (%)	6.2	3.4	5.3	7.2	9.8
DPS (HK$)	0.052	0.029	0.045	0.062	0.083

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

	FY19E			FY19E			OP Comments
(HK$ mn)	**New**	**Old**	**% Chg**	**New**	**Old**	**% Chg**	
Revenue	**11,532**	**10,121**	**13.9**	**13,857**	**12,058**	**14.9**	Due to the upbeat growth of Glastic casing business
Gross profit	2,593	2,222	16.7	3,263	2,717	20.1	
Gross margin	22.5%	22.0%	0.5	23.6%	22.5%	1.0	
Opex	(1,364)	(1,180)	15.6	(1,630)	(1,381)	18.1	
EBIT	1,288	1,160	11.1	1,700	1,452	17.1	
Net Profit	**891**	**878**	**1.5**	**1,223**	**1,125**	**8.7**	
Diluted EPS (HK$)	0.136	0.134	1.5	0.187	0.172	8.7	

Source: OP Research

Exhibit 3: Results summary

HK$ mn	1H17	2H17	1H18	2H18A	2H18E	Act/Est	FY17	FY18A	YoY%
Revenue	**3,618**	**4,945**	**4,150**	**4,749**	**4,021**	**18.1%**	**8,563**	**8,899**	**3.9%**
COGS	(2,699)	(3,633)	(3,192)	(3,914)	(3,418)	14.5%	(6,332)	(7,105)	12.2%
Gross profit	**920**	**1,312**	**959**	**835**	**603**	**38.4%**	**2,231**	**1,794**	**-19.6%**
Other income & gains	51	73	41	77	163	-52.8%	124	118	-5.4%
Selling exp	(60)	(66)	(76)	(53)	(42)	25.4%	(127)	(129)	1.7%
Admin exp	(395)	(448)	(423)	(452)	(422)	6.9%	(844)	(875)	3.7%
Other opex	(89)	67	83	(138)	(99)	39.4%	(22)	(55)	153.4%
Operating profit (EBIT)	**426**	**937**	**583**	**270**	**203**	**33.0%**	**1,364**	**853**	**-37.5%**
Provisions or other items	0	0	0	0	0	n.a.	0	0	n.a.
Finance costs	(43)	(68)	(81)	(93)	(46)	103.7%	(111)	(174)	57.6%
Profit after financing costs	383	870	502	177	157	12.4%	1,253	678	-45.9%
Associated cos	0	0	0	0	0	n.a.	0	0	n.a.
Jointly controlled cos	2	0	1	(4)	2	-299.9%	3	(3)	-193.9%
Pre-tax profit	386	870	503	173	159	8.9%	1,256	676	-46.2%
Tax	(86)	(111)	(85)	(28)	(13)	106.2%	(197)	(113)	-42.6%
Minority interests	(9)	(44)	2	(22)	(4)	454.0%	(53)	(20)	-62.0%
Net profit	**290**	**716**	**419**	**124**	**142**	**-12.6%**	**1,006**	**543**	**-46.1%**
YoY%									
Revenue	12%	8%	15%	-4%	-19%		9%	4%	0%
Gross profit	16%	20%	4%	-36%	-54%		18%	-20%	0%
Net profit	-24%	15%	44%	-83%	-80%		0%	-46%	0%
Key ratios						(in ppts)			(in ppts)
GPM	25.4%	26.5%	23.1%	17.6%	15.0%	2.6	26.1%	20.2%	(5.9)
Selling exp	1.7%	1.3%	1.8%	1.1%	1.0%	0.1	1.5%	1.4%	(0.0)
Admin exp	10.9%	9.1%	10.2%	9.5%	10.5%	(1.0)	9.9%	9.8%	(0.0)
EIT	22.5%	12.7%	17.0%	15.6%	8.5%	7.1	15.7%	16.7%	0.9
Net margin	8.0%	14.5%	10.1%	2.6%	3.5%	(0.9)	11.8%	6.1%	(5.7)

Source: OP Research

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Statement (HK$ mn)					
Electrical fittings	7,070	7,553	9,786	11,711	14,687
Ironware parts	470	607	607	607	607
Communication facilities and others	1,023	739	1,139	1,539	1,779
Turnover	**8,563**	**8,899**	**11,532**	**13,857**	**17,073**
YoY%	9	4	30	20	23
COGS	(6,332)	(7,105)	(8,939)	(10,594)	(12,965)
Gross profit	**2,231**	**1,794**	**2,593**	**3,263**	**4,108**
Gross margin	26.1%	20.2%	22.5%	23.6%	24.1%
Other income	124	118	60	67	79
Selling & distribution	(127)	(129)	(163)	(197)	(241)
Admin	(844)	(875)	(1,129)	(1,347)	(1,609)
R&D	(370)	(409)	(531)	(638)	(786)
Other opex	(22)	(55)	(72)	(86)	(106)
Total opex	**(992)**	**(1,059)**	**(1,364)**	**(1,630)**	**(1,956)**
Operating profit (EBIT)	**1,364**	**853**	**1,288**	**1,700**	**2,230**
Operating margin	15.9%	9.6%	11.2%	12.3%	13.1%
Provisions	0	0	0	0	0
Finance costs	(111)	(174)	(179)	(179)	(179)
Profit after financing costs	1,253	678	1,109	1,522	2,051
Associated companies & JVs	3	(3)	(3)	(3)	(3)
Pre-tax profit	1,256	676	1,107	1,519	2,049
Tax	(197)	(113)	(183)	(251)	(338)
Profit from discontinued operations	0	0	0	0	0
Minority interests	(53)	(20)	(33)	(45)	(60)
Net profit	**1,006**	**543**	**891**	**1,223**	**1,650**
YoY%	0	(46)	64	37	35
Net margin	11.8%	6.1%	7.7%	8.8%	9.7%
EBITDA	**1,710**	**1,363**	**1,944**	**2,456**	**3,024**
EBITDA margin	20.0%	15.3%	16.9%	17.7%	17.7%
EPS (HK$)	**0.159**	**0.088**	**0.136**	**0.187**	**0.252**
YoY%	1	(45)	56	37	35
DPS (HK$)	0.052	0.029	0.045	0.062	0.083

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Cash Flow (HK$ mn)					
EBITDA	1,710	1,363	1,944	2,456	3,024
Chg in working cap	(838)	640	(922)	(814)	(1,125)
Others	66	0	0	0	0
Operating cash	**937**	**2,004**	**1,022**	**1,642**	**1,899**
Tax	(175)	(231)	(147)	(183)	(251)
Net cash from operations	**762**	**1,773**	**874**	**1,459**	**1,648**
Capex	(1,087)	(1,175)	(923)	(1,109)	(1,366)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	16	0	0	0	0
Interests received	7	12	10	7	4
Others	(709)	26	0	0	0
Investing cash	**(1,772)**	**(1,137)**	**(913)**	**(1,102)**	**(1,362)**
FCF	**(1,010)**	**636**	**(39)**	**357**	**286**
Issue of shares	75	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(291)	(722)	(253)	(366)	(496)
Net change in bank loans	1,375	220	0	0	0
Interests paid	(108)	(174)	(179)	(179)	(179)
Others	(131)	3	0	0	0
Financing cash	**920**	**(673)**	**(432)**	**(545)**	**(675)**
Net change in cash	**(90)**	**(38)**	**(471)**	**(188)**	**(389)**
Exchange rate or other Adj	14	13	0	0	0
Opening cash	869	792	768	298	110
Closing cash	**792**	**768**	**298**	**110**	**(279)**
CFPS (HK$)	**0.121**	**0.286**	**0.134**	**0.223**	**0.252**

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	26.1	20.2	22.5	23.6	24.1
Operating margin (%)	15.9	9.6	11.2	12.3	13.1
Net margin (%)	11.8	6.1	7.7	8.8	9.7
R&D/Sales (%)	4.3	4.6	4.6	4.6	4.6
Selling & dist'n exp/Sales (%)	1.5	1.4	1.4	1.4	1.4
Admin exp/Sales (%)	9.9	9.8	9.8	9.7	9.4
Payout ratio (%)	32.9	32.9	32.9	32.9	32.9
Effective tax (%)	15.7	16.7	16.5	16.5	16.5
Total debt/equity (%)	70.8	73.0	65.9	58.4	50.5
Net debt/equity (%)	49.0	51.6	53.7	50.1	47.9
Current ratio (x)	1.3	1.3	1.3	1.4	1.4
Quick ratio (x)	0.9	0.9	0.9	0.9	0.9
Inventory T/O (days)	154	130	130	130	130
AR T/O (days)	166	128	128	128	128
AP T/O (days)	159	135	135	135	135
Cash conversion cycle (days)	161	123	123	123	123
Asset turnover (x)	0.7	0.7	0.8	0.9	0.9
Financial leverage (x)	2.3	2.3	2.3	2.3	2.2
EBIT margin (%)	15.9	9.6	11.2	12.3	13.1
Interest burden (x)	0.9	0.8	0.9	0.9	0.9
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	**19.2**	**9.2**	**14.2**	**17.4**	**20.5**
ROIC (%)	**15.0**	**8.0**	**11.2**	**13.3**	**15.5**

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Balance Sheet (HK$ mn)					
Fixed assets	4,575	5,179	5,436	5,782	6,351
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	68	63	60	58	55
Long-term investments	0	0	0	0	0
Other non-current assets	461	679	679	679	679
Non-current assets	**5,103**	**5,922**	**6,176**	**6,520**	**7,085**
Inventories	2,677	2,529	3,182	3,770	4,614
AR	3,891	3,115	4,036	4,850	5,976
Prepayments & deposits	514	547	709	852	1,050
Other current assets	647	761	761	761	761
Cash	792	768	298	110	(279)
Current assets	**8,521**	**7,720**	**8,985**	**10,343**	**12,121**
AP	2,756	2,626	3,303	3,915	4,791
Tax	231	147	183	251	338
Accruals & other payables	501	459	595	715	881
Bank loans & leases	2,235	2,455	2,455	2,455	2,455
CB & othe debts	657	201	201	201	201
Other current liabilities	0	0	0	0	0
Current liabilities	**6,380**	**5,888**	**6,737**	**7,536**	**8,666**
Bank loans & bonds	1,240	1,697	1,697	1,697	1,697
CB & leases	0	0	0	0	0
Deferred tax & others	118	120	120	120	120
MI	51	(26)	7	52	112
Non-current liabilities	**1,409**	**1,792**	**1,824**	**1,869**	**1,930**
Total net assets	**5,834**	**5,963**	**6,600**	**7,458**	**8,612**
Shareholder's equity	**5,834**	**5,963**	**6,600**	**7,458**	**8,612**
Share capital	61	65	65	65	65
Reserves	5,774	5,898	6,536	7,393	8,547
BVPS (HK$)	**0.81**	**0.96**	**0.92**	**1.02**	**1.15**
Total debts	4,132	4,352	4,352	4,352	4,352
Net cash/(debts)	(2,858)	(3,076)	(3,547)	(3,735)	(4,124)

Source: Company, OP Research

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Tongda Group Hld	**698 HK**	**0.85**	**702**	**9.5**	**9.7**	**6.2**	**4.5**	**55.5**	**37.3**	**34.1**	**0.2**	**3.4**	**5.3**	**0.9**	**0.8**	**6.3**	**4.7**	**51.6**	**20.2**	**3.5**	**9.2**	**14.2**	**3.7**	**10.4**
HSI		29320.97			11.2	11.4	10.4	-0.7	9.2	4.3	2.67	3.4	3.6	1.37	1.23						12.2	10.8	4.0	11.2
HSCEI		11624.98			9.4	8.8	8.1	6.8	9.4	4.7	1.88	3.6	3.9	1.19	1.04						12.7	11.8	5.2	11.1
CSI300		3835.44			14.5	12.2	10.7	18.8	13.2	4.4	2.79	2.1	2.6	1.80	1.56						12.5	12.8	12.2	18.3
Adjusted sector avg*					**7.7**	**10.5**	**9.1**	**-13.8**	**21.4**	**-0.5**	**14.49**	**4.5**	**2.9**	**1.26**	**1.26**	**3.0**	**2.9**	**1.8**	**18.1**	**7.7**	**11.8**	**11.1**	**-5.1**	**20.1**
Byd Electronic	285 HK	9.84	**2,824**	13.8	7.3	8.2	7.4	-10.8	10.8	3.6	2.30	2.8	2.1	1.28	1.15	3.4	3.7	0.0	11.0	6.7	17.3	14.5	-7.9	-0.3
Fih Mobile Ltd	2038 HK	0.89	**931**	0.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.43	0.40	-1.2	-2.4	0.0	-0.6	-5.7	-32.2	-25.7	-7.3	4.7
Aac Technologies	2018 HK	45.00	**6,951**	59.8	8.8	11.8	12.1	-25.2	-2.7	-6.2	N/A	4.7	3.7	2.66	2.38	6.6	7.7	12.9	41.3	25.2	30.5	21.0	-13.2	-0.9
Cowell	1415 HK	1.41	**149**	0.6	5.4	6.0	5.0	-9.1	20.0	7.5	0.80	3.7	3.9	0.47	N/A	0.5	0.5	0.0	10.0	3.7	5.1	7.1	6.0	50.0
Catcher Tech	2474 TT	232.50	**5,812**	40.9	8.2	6.3	9.4	30.1	-32.6	0.2	40.37	5.2	5.4	1.25	1.17	2.6	2.8	0.0	45.0	23.4	21.8	20.0	-6.6	3.8
Casetek Holdings	5264 TT	50.00	**682**	4.7	N/A	20.3	10.9	N/A	87.0	N/A	N/A	5.0	2.3	0.64	0.63	4.2	2.3	0.0	4.6	-5.6	-5.5	3.2	-8.8	41.0
Foxconn Tech	2354 TT	63.10	**2,896**	4.6	9.0	10.4	10.2	-13.6	1.9	-3.5	N/A	5.7	5.0	0.77	0.62	4.9	5.9	0.0	9.6	6.7	8.5	6.5	1.8	4.6
Shenzhen Everw-A	300115 CH	12.72	**1,727**	30.7	20.2	43.9	26.5	-54.0	65.5	-4.4	N/A	0.8	0.8	2.55	2.47	10.6	14.1	39.2	23.5	6.8	4.7	5.5	36.5	57.6
Tongda Group Hld	**698 HK**	**0.85**	**2,824**	**9.5**	**15.4**	**11.5**	**8.7**	**33.9**	**32.6**	**23.4**	**0.49**	**2.1**	**2.9**	**1.47**	**1.34**	**8.7**	**6.7**	**51.6**	**20.2**	**6.1**	**9.2**	**12.3**	**3.7**	**10.4**
HSI		29320.97	**931**		11.2	11.4	10.4	-0.7	9.2	4.3	2.67	3.4	3.6	1.37	1.23						12.2	10.8	4.0	11.2
HSCEI		11624.98	**6,951**		9.4	8.8	8.1	6.8	9.4	4.7	1.88	3.6	3.9	1.19	1.04						12.7	11.8	5.2	11.1
CSI300		3835.44	**149**		14.5	12.2	10.7	18.8	13.2	4.4	2.79	2.1	2.6	1.80	1.56						12.5	12.8	12.2	18.3

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai
20/03/2019	Ausnutria Dairy	1717	Margin expansion story continues	BUY	Dallas Cai/Megan Jin
20/03/2019	TCL Electronics	1070	Promising FY19E ahead	BUY	Yuji Fung/Dallas Cai
18/03/2019	361 Degrees Intl	1361	Rebranding strategies to bear fruit in 2020E	BUY	Yuji Fung/Dallas Cai
15/03/2019	Kingdee Intl	268	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
13/03/2019	Xtep Intl	1368	Growth momentum likely keeps up in FY19E	BUY	Dallas Cai/Megan Jin
06/03/2019	Xtep Intl	1368	JV with Wolverine for multi-brand portfolio	BUY	Dallas Cai/Megan Jin
05/03/2019	CH Display OPT	334	Foldable smartphone play backed by CSOT	BUY	Yuji Fung/Dallas Cai
27/02/2019	Anta Sports	2020	FY18 revenue strong beat, profits in-line	BUY	Dallas Cai/Megan Jin
22/02/2019	Ausnutria Dairy	1717	FY18 profit surprise on margin expansion	BUY	Dallas Cai
20/02/2019	Q Tech	1478	Jan shipments growth was solid	BUY	Yuji Fung/Dallas Cai
19/02/2019	Tongda	698	FY18E profit warning	BUY	Yuji Fung/Dallas Cai
18/02/2019	Sunny Optical	2382	Earnings growth momentum likely resume in 2019	BUY	Yuji Fung/Dallas Cai
30/01/2019	Li Ning	2331	FY18E results preview	HOLD	Dallas Cai
30/01/2019	Anta Sports	2020	FY18E results preview	BUY	Dallas Cai
15/01/2019	361 Degrees Intl	1361	FY18E results preview	BUY	Yuji Fung/Dallas Cai
15/01/2019	Xtep Intl	1368	FY18E results preview	BUY	Dallas Cai
14/01/2019	Sinosoft Tech	1297	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Sunny Optical	2382	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Q Tech	1478	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Tian Lun Gas	1600	FY18E results preview	BUY	Yuji Fung/Dallas Cai
08/01/2019	Chinasoft Intl	354	FY18E results preview	BUY	Yuji Fung/Dallas Cai
20/12/2018	Tian Lun Gas	1600	A different coal-to-gas tale from Henan	BUY	Yuji Fung/Dallas Cai
11/12/2018	Sunny Optical	2382	November saw resilient shipments	BUY	Yuji Fung/Dallas Cai
11/12/2018	Q Tech	1478	November shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
10/12/2018	Anta Sports	2020	Acquisition of Amer comes to a deal	BUY	Dallas Cai
03/12/2018	China Youzan	8083	December foresight bears fruit	BUY	Yuji Fung/Dallas Cai

Historical recommendations and target price: Tongda (698 HK)

(as of 20/03/2019)

	DATE	RATING	TP	CLOSE
1	08 Nov 2016	BUY	2.75	2.06
2	22 Mar 2017	BUY	3.00	3.59
3	28 Aug 2017	BUY	3.52	2.12
4	23 Nov 2017	BUY	3.40	2.16
5	28 Mar 2018	BUY	2.60	1.68
6	23 Aug 2018	BUY	1.93	1.35
7	19 Feb 2019	BUY	1.07	0.86
8				

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