

Tongda (698 HK)

1H24E preview: eyes on Android recovery and smart tech growth

Tongda will report 1H24 results on 28 Aug. We estimate 1H24 revenue/net profit of HK\$ 2.6bn/35mn (-10%/+82% YoY) mainly driven by Android smartphone recovery, inventory restocking from overseas household & sports goods customers, network communications router demand pick-up on Wifi-7 upgrade and stabilized GPM for each segment. Looking into 2H24/FY25E, we expect handset recovery with stable ASP and order wins in household & sports goods. We are also positive on Malaysian plant ramp-up to meet non-handset customers' demand. We lowered our FY24-25E EPS by 23-32% to reflect Apple business disposal and Android market competition. Maintain BUY with new TP of HK\$0.13, based on rolled-over 6.0x FY25E P/E.

- **Android demand and stable GPM to drive earnings recovery in 1H24E.** For consumer electronics segment (incl. handset, smart electrical, network comm.), we estimate sales of HK\$ 1,998mn in 1H24 (vs HK\$2,390mn in 1H23), mainly dragged by disposal of Apple business in 1H24E (HK\$ 350mn in 1H24E, vs HK\$ 963mn in 1H23). By segment, we expect handsets' metal/non-metal sales to grow 36%/1% YoY in 1H24E on Android demand recovery. We forecast revenue of HK\$ 200mn from smart electrical appliances thanks to favourable market policy and client order ramp-up, and network communications sales of HK\$246mn (-15% YoY vs. -32% in FY23) due to router demand pick-up on Wifi-7 upgrade in Paris Olympic Games. For household and sports goods, we expect sales of HK\$552mn (+25% YoY) driven by overseas inventory restocking and new client expansion. Overall, we expect 1H24 net profit to grow 82% YoY thanks to Android business recovery, stable GPM and better operating efficiencies.
- **2H24/FY25E: continued recovery of handset, Malaysian factory ramp-up and steady network communication.** We expect a better year in 2025 on handset business recovery with stable ASP and easing competition, steady network communication business and stronger household and sports goods' demand. In addition, we are positive on Malaysian plant's capacity ramp-up to support clients' demand, and customer product development extending into 2027. Despite the slowdown in network communication projects, mgmt. guided high-double digit growth in FY25E.
- **Expect earnings recovery in FY24/25E; Maintain BUY.** We lowered our FY24-25E EPS estimates by 23-32% to reflect Apple business disposal impact and Android market competition. Our new TP of HK\$0.13 is based on rolled-over 6.0x FY25E P/E. Trading at 4.8x/3.5x FY24/25E P/E (vs 7x for 1sd below 10-year his. avg.), we think the stock is attractive. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	7,972	6,522	5,603	5,819	6,547
YoY growth (%)	(15.5)	(18.2)	(14.1)	3.9	12.5
Net profit (HK\$ mn)	137.3	(1,229.7)	154.8	213.9	278.0
YoY growth (%)	(39.8)	na	na	38.2	30.0
EPS (Reported) (HK\$ cents)	1.41	(12.64)	1.59	2.20	2.86
YoY growth (%)	(51.2)	na	na	38.2	30.0
Consensus EPS (HK\$ cents)	0.00	0.00	2.30	2.90	3.30
P/E (x)	5.4	ns	4.8	3.5	2.7
P/B (x)	0.1	0.1	0.1	0.1	0.1
Yield (%)	0.0	0.0	1.7	2.3	3.0
ROE (%)	1.7	(16.8)	2.2	2.9	3.7
Net gearing (%)	23.4	25.5	(12.6)	(23.0)	(29.7)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$0.13
(Previous TP)	HK\$0.14)
Up/Downside	73.6%
Current Price	HK\$0.08

China Technology

Alex NG

(852) 3900 0881

alexng@cmbi.com.hk

Hanqing LI

lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	738.6
Avg 3 mths t/o (HK\$ mn)	1.0
52w High/Low (HK\$)	0.16/0.07
Total Issued Shares (mn)	9719.0

Source: FactSet

Shareholding Structure

Landmark Worldwide Holdings Ltd	24.4%
Wang Ya Nan	7.8%

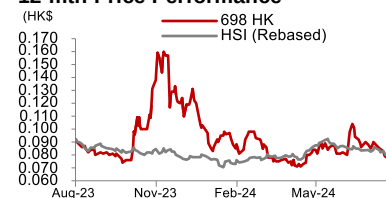
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.6%	-7.9%
3-mth	-9.5%	0.1%
6-mth	-10.6%	-17.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- 1) Healthier balance sheet and Android momentum to drive profitability recovery – 16 Apr 2024 ([link](#))
- 2) Positive on earnings recovery in FY24-25E after disposal of Apple business – 2 Jan 2024 ([link](#))
- 3) Positive on Android recovery, Apple share gain and non-smartphone biz order wins- 11 Sep 2023 ([link](#))
- 4) 1H23 Preview: weak revenue amid industry headwinds; expect smartphone recovery in 2H23E– 4 Aug 2023 ([link](#))

Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,603	5,819	6,547	6,009	6,487	6,848	-7%	-10%	-4%
Gross profit	839	849	982	971	1,078	1,164	-14%	-21%	-16%
Operating profit	150	120	177	202	248	294	-26%	-52%	-40%
Net profit	155	214	278	227	278	325	-32%	-23%	-14%
EPS (HK\$)	0.016	0.022	0.029	0.023	0.03	0.03	-32%	-23%	-14%
Gross margin	15.0%	14.6%	15.0%	16.2%	16.6%	17.0%	-1.2 ppt	-2 ppt	-2 ppt
Operating margin	2.7%	2.1%	2.7%	3.4%	3.8%	4.3%	-0.7 ppt	-1.8 ppt	-1.6 ppt
Net Margin	2.8%	3.7%	4.2%	3.8%	4.3%	4.7%	-1 ppt	-0.6 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBIS			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,603	5,819	6,547	6,009	6,487	6,848	-7%	-10%	-4%
Gross profit	839	849	982	973	1,077	1,164	-14%	-21%	-16%
Operating profit	150	120	177	-	-	-	-	-	-
Net profit	155	214	278	227	278	325	-32%	-23%	-14%
EPS (HK\$)	0.016	0.022	0.029	0.023	0.029	0.033	-31%	-24%	-13%
Gross margin	15.0%	14.6%	15.0%	16.2%	16.6%	17.0%	-1.2 ppt	-2 ppt	-2 ppt
Operating margin	2.7%	2.1%	2.7%	-	-	-	-	-	-
Net Margin	2.8%	3.7%	4.2%	3.8%	4.3%	4.7%	-1 ppt	-0.6 ppt	-0.5 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Revenue breakdown

HK\$ mn	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Consumer electronics	5,637	1,998	2,498	4,496	4,436	4,886
... YoY	-18%	-16%	-23%	-20%	-1%	10%
Handsets	4,865	1,552	1,688	3,240	2,939	3,269
... YoY	-15%	-26%	-39%	-33%	-9%	11%
Metal	413	225	225	450	488	488
... YoY	-2%	36%	-9%	9%	8%	0%
Non-metal	2,000	975	1,463	2,438	2,451	2,781
... YoY	-29%	1%	41%	22%	1%	13%
Apple	2,402	352	-	352	-	-
... YoY	-4%	-63%	0%	-85%	0%	0%
Electrical appliances	-	100	150	250	325	374
... YoY	0%	0%	0%	0%	30%	15%
Network comm.	772	246	410	656	722	794
... YoY	-32%	-15%	-15%	-15%	10%	10%
Household goods	885	552	555	1,107	1,384	1,660
... YoY	-19%	25%	25%	25%	25%	20%
Total	6,522	2,550	3,053	5,603	5,819	6,547
... YoY	-18%	-10%	-17%	-14%	4%	13%

Source: Company data, CMBIGM estimates

Figure 4: P&L forecast

HK\$ mn	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	6,522	2,550	3,053	5,603	5,819	6,547
...YoY	-18.2%	-9.9%	-17.3%	-14.1%	3.9%	12.5%
Cost of sales	-6,176	-2,124	-2,641	-4,765	-4,971	-5,565
Gross profit	346	427	412	839	849	982
GPM (%)	5.3%	16.7%	13.5%	15.0%	14.6%	15.0%
...YoY	-71.9%	-25.7%	-280.6%	142.5%	1.2%	15.7%
 Selling exp	 (82)	 (15)	 (18)	 (34)	 (35)	 (39)
...% of rev	-1.3%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
R&D	(628)	(161)	(165)	(326)	(339)	(367)
...% of rev	-9.6%	-6.3%	-5.4%	-5.8%	-5.8%	-5.6%
Operating profit	(1094)	95	55	150	120	177
OPM (%)	-16.8%	3.7%	1.8%	2.7%	2.1%	2.7%
...YoY	-462.5%	26.1%	-104.7%	-113.7%	-19.9%	47.2%
 Net profit	 -1,230	 35	 119	 155	 214	 278
NPM (%)	-18.9%	1.4%	3.9%	2.8%	3.7%	4.2%
...YoY	-995.7%	81.8%	-109.5%	-112.6%	38.2%	30.0%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$0.13

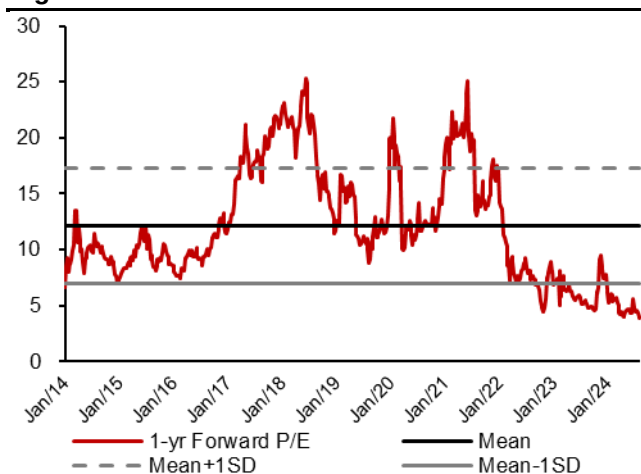
Our new TP of HK\$0.13 is based on the rolled over 6.0x FY25E P/E. We think the stock's current valuation of 4.8x/3.5x FY24/25E P/E is fairly attractive (well below 1SD below hist. P/E), as we expect earnings recovery and new business ramp-up in FY24-25E.

Figure 5: Peers valuation

			Market Cap	Price	TP	Up/Down	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	(US\$ mn)	(LC)	(LC)	-side	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
HK-listed												
Tongda	698 HK	BUY	95	0.08	0.13	74%	4.8	3.5	0.1	0.1	2.2	2.9
BYDE	285 HK	BUY	8,024	27.70	45.3	63%	11.0	8.1	3.0	2.4	27.0	29.2
Ju Teng	3336 HK	NR	193	1.25	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	740	0.73	NA	NA	-	-	-	-	-	-
Average							7.9	5.8	1.5	1.2	14.6	16.1
China-listed												
Everwin	300115 CH	NR	1,955	10.30	NA	NA	17.9	14.9	1.9	1.7	11.1	11.6
Janus	300083 CH	NR	1,256	5.31	NA	NA	19.0	15.4	1.7	1.5	9.1	10.2
Average							18.4	15.1	1.8	1.6	10.1	10.9
Overseas-listed												
Foxconn	2354 TT	NR	2,509	57.90	NA	NA	20.1	19.7	0.5	0.5	3.8	3.8
Catcher	2474 TT	NR	4,429	212.50	NA	NA	11.8	14.0	0.9	0.9	7.5	6.2
Average							16.0	16.8	0.7	0.7	5.7	5.0

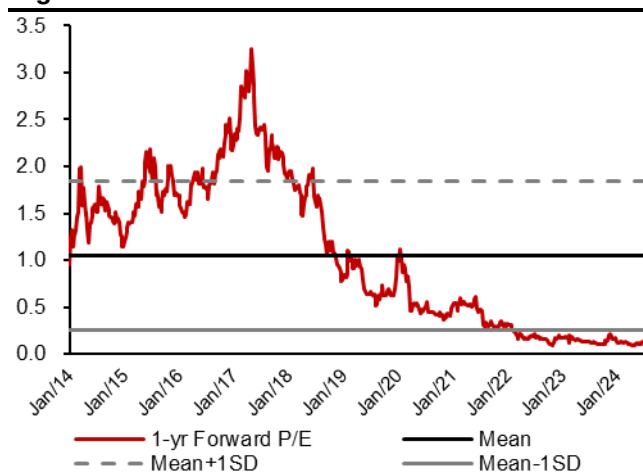
Source: Bloomberg, CMBIGM estimates

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	9,433	7,972	6,522	5,603	5,819	6,547
Cost of goods sold	(7,930)	(6,742)	(6,176)	(4,765)	(4,971)	(5,565)
Gross profit	1,503	1,230	346	839	849	982
Operating expenses	(1,163)	(1,233)	(1,292)	(658)	(694)	(766)
Selling expense	(57)	(66)	(82)	(34)	(35)	(39)
Admin expense	(1,106)	(1,167)	(1,211)	(625)	(659)	(727)
SG&A expense	0	0	0	0	0	0
Others	(32)	(97)	(147)	(31)	(35)	(39)
Operating profit	308	302	(1,094)	150	120	177
EBITDA	375	1,962	552	1,128	952	856
Other income/expense	69	82	138	105	105	118
Others	(74)	(165)	(197)	(40)	20	20
Pre-tax profit	303	219	(1,153)	215	245	315
Income tax	(51)	(67)	(52)	(35)	(24)	(31)
Minority interest	15	14	25	25	7	6
Net profit	228	137	(1,230)	155	214	278
Adjusted net profit	228	137	(1,230)	155	214	278

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	9,354	7,993	8,034	8,713	10,041	10,802
Cash & equivalents	1,366	1,195	1,160	2,341	3,171	3,793
Account receivables	3,317	2,159	1,907	1,584	2,041	2,038
Inventories	3,177	2,351	1,267	1,089	1,131	1,272
Prepayment	523	653	623	623	623	623
Other current assets	971	1,634	3,076	3,076	3,076	3,076
Non-current assets	7,402	6,236	5,269	2,941	2,309	1,830
PP&E	6,658	5,598	4,552	2,224	1,592	1,113
Other non-current assets	744	638	717	717	717	717
Total assets	16,755	14,229	13,303	11,654	12,351	12,632
Current liabilities	7,720	5,444	5,073	3,803	4,281	4,283
Short-term borrowings	2,931	1,928	1,878	915	941	974
Account payables	3,772	2,531	1,837	1,530	1,982	1,950
Other current liabilities	1,016	986	1,358	1,358	1,358	1,358
Non-current liabilities	814	1,154	1,226	680	695	714
Long-term borrowings	639	1,051	1,065	519	534	553
Other non-current liabilities	175	103	161	161	161	161
Total liabilities	8,534	6,598	6,299	4,483	4,976	4,996
Share capital	97	97	97	97	97	97
Other reserves	8,063	7,466	6,585	6,728	6,925	7,180
Total shareholders equity	8,221	7,631	7,003	7,171	7,375	7,636
Minority interest	61	68	321	346	353	358
Total equity and liabilities	16,755	14,229	13,303	11,654	12,351	12,632

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	303	219	(1,153)	215	245	315
Depreciation & amortization	67	1,660	1,645	978	832	679
Change in working capital	(731)	279	643	194	(47)	(170)
Others	769	(1,415)	(1,128)	(50)	(55)	(73)
Net cash from operations	408	743	7	1,337	975	751
Investing						
Capital expenditure	(900)	(600)	(600)	(150)	(200)	(200)
Others	(320)	251	225	1,515	30	41
Net cash from investing	(1,220)	(349)	(375)	1,365	(170)	(159)
Financing						
Dividend paid	0	0	0	(12)	(17)	(22)
Net borrowings	43	(591)	(35)	(1,510)	41	52
Proceeds from share issues	752	0	0	0	0	0
Others	(98)	277	710	0	0	0
Net cash from financing	696	(314)	675	(1,522)	24	30
Net change in cash						
Cash at the beginning of the year	1,353	1,366	1,195	1,160	2,341	3,171
Exchange difference	129	(251)	(341)	0	0	0
Cash at the end of the year	1,366	1,195	1,160	2,341	3,171	3,793
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	(3.3%)	(15.5%)	(18.2%)	(14.1%)	3.9%	12.5%
Gross profit	(12.1%)	(18.2%)	(71.9%)	142.5%	1.2%	15.7%
Operating profit	(38.7%)	(2.0%)	na	na	(19.9%)	47.2%
EBITDA	(66.6%)	423.2%	(71.9%)	104.6%	(15.6%)	(10.1%)
Net profit	(35.1%)	(39.8%)	na	na	38.2%	30.0%
Adj. net profit	(35.1%)	(39.8%)	na	na	38.2%	30.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.9%	15.4%	5.3%	15.0%	14.6%	15.0%
Operating margin	3.3%	3.8%	(16.8%)	2.7%	2.1%	2.7%
EBITDA margin	4.0%	24.6%	8.5%	20.1%	16.4%	13.1%
Adj. net profit margin	2.4%	1.7%	(18.9%)	2.8%	3.7%	4.2%
Return on equity (ROE)	3.1%	1.7%	(16.8%)	2.2%	2.9%	3.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.3	0.2	0.3	(0.1)	(0.2)	(0.3)
Current ratio (x)	1.2	1.5	1.6	2.3	2.3	2.5
Receivable turnover days	122.1	125.4	113.8	113.7	113.7	113.7
Inventory turnover days	123.8	149.6	106.9	90.2	81.5	78.8
Payable turnover days	160.6	170.6	129.1	129.0	129.0	129.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	2.6	5.4	ns	4.8	3.5	2.7
P/B	0.1	0.1	0.1	0.1	0.1	0.1
Div yield (%)	0.0	0.0	0.0	1.7	2.3	3.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

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

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