

Tongda Group

Bolder plan in 2013

to summarize...

- Handset growth continues to major income driver in short-term
- 1H this year may not be very strong; thus possibly lower revenue split at 35%
- Expecting 29% and 40% top-line growth in 2012F and 2013F
- Tongda has well-diversified IML products and stable margin compared to peers
- Remain BUY and TP slightly revised up to HK\$0.578 from HK\$0.565

Handset growth continues to major income driver in short-term. We have conducted a major review on assumptions we made with respect to earnings projection. There is upward adjustment on earnings. Nevertheless, handset continues to be our estimated major growth driver especially in 2013F, which may contribute 75%+ total increment in the year. On the other hand, while light guide plates sales to Japan seems unlikely this year, management indicated initial demand from TCL is around 0.3m pieces per month, which may contribute up to 3.6m pieces at HK\$15 each in 2012F. While expected increase in percentage terms is significant for light guide plates in the next 3 years, the actual amount and contributed may remain limited, in our view. Table 1 shows our expected sales growth as well as handset and light guide plate contribution between 2011A and 2014F.

Table 1. Handset and light guide plate contribution to sales growth

Year-end Dec (HK\$m)	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Total turnover	3,147	4,072	5,681	6,759
Turnover incremental	799	925	1,609	1,078
Handset revenue	1,420	2,000	3,250	3,900
Incremental	470	580	1,250	650
As % of total increment	58.8%	62.7%	77.7%	60.3%
Light guide plate revenue	0	54	108	216
Incremental	0	54	54	108
As % of total increment	0.0%	5.8%	3.4%	10.0%

Source: SBI E2-Capital

1H this year may not be very strong and thus possibly lower revenue split. In the past years, except a strong 1H in 2008 before serious slowdown in 2H, 1H used to contribute 35% to 45% revenue and ~40% net profit of the corresponding full year. Despite good momentum seen in handset segment, 1H revenue this year may be slightly low in full year point of view which may contribute the lower range at 35% partly on somewhat weaker electrical appliances growth. However, the management expects customers to strive for full year performance, similar to 1H and 2H in 2009.

Table 2. Interim contribution to full year

Year-end Dec (HK\$m)	FY12/08A	FY12/09A	FY12/10A	FY12/11A
Revenue	615	678	1,039	1,280
Revenue contribution in the	44.1%	37.7%	44.3%	40.7%
Net profit	45	41	87	102
Net profit contribution in the	69.4%	40.1%	43.1%	40.8%

Source: SBI E2-Capital

Ticker	0698 HK
Rating	BUY
Price (HK\$)	0.280
Target Price (HK\$)	0.578 (+106%)
12m Price Range (HK\$)	0.07 - 0.39
Market cap. (US\$m)	162.1
Daily t/o (US\$m)	0.25
Free float (%)	44.6

Financial summary

Year to Dec	10A	11A	12F	13F	14F
Turnover (HK\$m)	2,348	3,147	4,072	5,681	6,759
Net Profit (HK\$m)	201	250	302	445	541
EPS (HK\$)	0.044	0.053	0.067	0.097	0.118
P/E (x)	6.5	5.2	4.3	2.9	2.4
P/B (x)	0.81	0.71	0.64	0.56	0.48
EV/EBITDA (x)	4.3	3.2	2.8	2.2	1.8
Yield (%)	6.4	6.1	7.9	11.6	14.0
ROE (%)	13.2	14.0	15.0	19.5	20.7
ROCE (%)	12.4	15.1	15.6	19.2	20.0
N. Gear. (%)	14.0	17.5	19.5	21.0	17.9

Source: SBI E2-Capital

	12F	13F	14F
Consensus EPS (HK\$)	0.066	0.081	0.098
Previous earnings (HK\$m)	299.1	346.5	-
Previous EPS (HK\$)	0.064	0.074	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(6.2)	(3.9)	(13.2)
Actual price changes (%)	(11.5)	(14.3)	(27.0)



Source: Bloomberg

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Growth assumptions revised. The management expects to see further growth in global handset market especially the smart phone market. According to the estimates by Taiwan Market Intelligence Centre (MIC), global shipment of smart phones in 2011 was 452m, which is expected to further increase by 35.8% YoY in 2012 to 614m. While smart phones generally require better design and finishing, with leading IML technology we believe Tongda is in good position to capture opportunities of increasing portion of smart phones within handset market. In addition, according to IHS iSuppli, shipment of smart phones by China handset manufacturers is expected to double in 2012 to 100m+ sales, the major customer base of Tongda. As such, the management expects to further raise its capacity in handset segment up to 100m pieces set in 2013F with our estimated top-line up to HK\$2,000m in the year. Table 3 and Table 4 shows sales and gross profit forecast for various products in the next 3 years with gross margin assumption for individual segments.

Table 3. Revised sales forecast

Year to Dec (HK\$m)	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Total turnover	2,348	3,147	4,072	5,681	6,759
Electrical fittings revenue	1,875	2,654	3,579	5,188	6,266
Handset	951	1,420	2,000	3,250	3,900
Electrical appliances	603	784	941	1,129	1,327
Notebook computers	322	449	584	701	823
Light guide plate	0	0	54	108	216
Ironware parts	330	377	377	377	377
Communication facilities and others	143	117	117	117	117

Table 4. Gross profit breakdown

Year to Dec (HK\$m)	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Handset	190	305	400	650	780
Electrical appliances	105	149	165	198	232
Notebook computers	72	108	131	158	185
Light guide plate	0	0	5	16	43
Others	40	43	50	50	50
<u>Gross margin estimation</u>					
Handset	20.0%	21.5%	20.0%	20.0%	20.0%
Electrical appliances	17.5%	19.0%	17.5%	17.5%	17.5%
Notebook computers	22.5%	24.0%	22.5%	22.5%	22.5%
Light guide plate	n.a.	n.a.	10.0%	15.0%	20.0%

Source: SBI E2-Capital

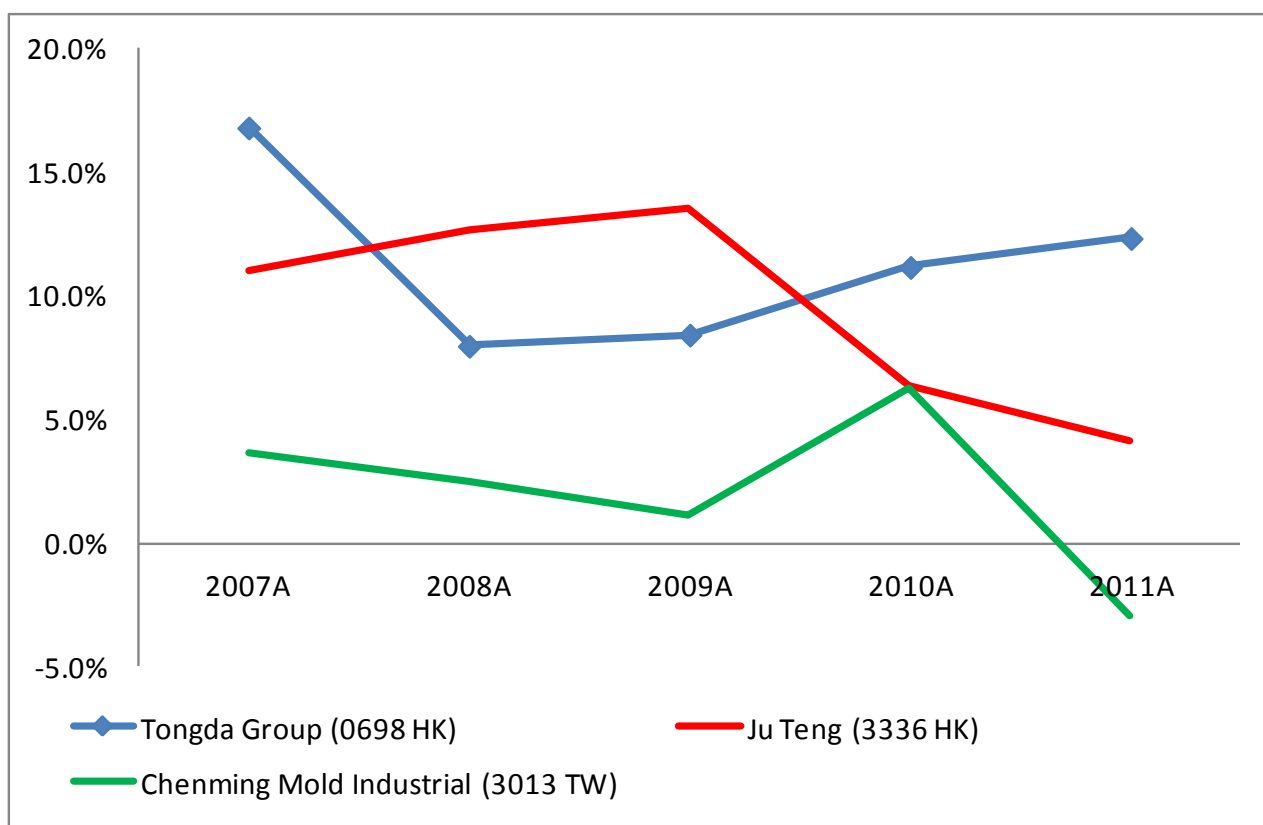
Peers comparison. While Tongda has a wide range of IML products for handset, notebook and electrical appliances casing, there is apparently no obvious direct competitor in the market. Nevertheless, we believe Ju Teng International (3336 HK) and Chenming Mold Industry (3013 TW) can be somewhat compared to Tongda with their focus on notebook / PC casing. Table 5 shows major focus of the particular 3 companies while leaving alone related companies with boarder diversification such as BYDE (0285 HK), Catcher Tech (2474 TW) and Huanhsin (H16 SP). Ju Teng has sole coverage on notebook casing while Chenming Mold Industrial covers mainly PC and notebook casing. Diagram 1 on the next page shows the operating margin of Tongda, Ju Teng and Chenming between 2007A and 2011A. With much higher level of diversification, Tongda enjoyed a consistent margin mainly at 8%-12% and occasionally as high as 17% in good environment such as 2007, in our view. On the other hand, Ju Teng earned higher margin only when notebook was better received in previous years than in 2010 and 2011 even though its size was much larger than Tongda.

Table 5. Industry exposure as of 2011A revenue

Year to Dec (HK\$m)	Electrical appliances	Handset casing	Notebook casing	Others	Total revenue
Tongda Group (0698 HK)	784	1,420	449	494	3,147
As % of total	25%	45%	14%	16%	100%
Ju Teng (3336 HK)	0	0	8,235	0	8,235
As % of total	0%	0%	100%	0%	100%
Chenming Mold Industrial (3013 TW)	0	136	640	51	826
As % of total	0%	16.4%	77.4%	6.1%	100%

Source: SBI E2-Capital

Diagram 1. Operating margin of Tongda, Ju Teng and Chenming Mold Industrial



Source: SBI E2-Capital

Remain BUY and TP slightly revised up to HK\$0.578 from HK\$0.565. We value Tongda with discounted cash flow model at 17.5% discount rate and the new target price is HK\$0.578 per share, which represents 9.0x and 6.1x FY12/12F and FY12/13F P/E based on HK\$302.1m and HK\$445.3m net profit for the respective years. On renewed assumptions, we expect revenue to increase to HK\$4,072m and HK\$5,681m for 2012F and 2013F, while net profit is expected to reach HK\$302m and HK\$445m respectively for the 2 periods. Table 6 shows major shareholders of Tongda. Table 7 and Table 8 show profit and loss forecast as well as balance sheet items respectively.

Table 6. Major shareholders

	Shareholding
Chairman Wang Ya Nan	51.85%
Public	48.15%
Total	100%

Source: HKEx

Table 7. Profit and loss forecast (Full-year)

HK\$m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Revenue	2,348.3	3,147.1	4,072.3	5,681.3	6,759.5
Cost of goods sold	(1,940.7)	(2,541.8)	(3,320.9)	(4,609.8)	(5,468.9)
Gross profit	407.6	605.3	751.4	1,071.4	1,290.6
Operating expenses	(145.4)	(217.3)	(295.2)	(411.9)	(490.1)
Operating profit	262.1	388.1	456.2	659.5	800.5
Share of profit of an associate and JV	2.6	2.1	0.0	0.0	0.0
Finance costs	(20.3)	(53.3)	(40.0)	(52.5)	(66.0)
Profit before tax	244.5	336.9	416.2	607.0	734.5
Income tax expense	(34.2)	(77.4)	(104.0)	(151.8)	(183.6)
Total profit	210.2	259.5	312.1	455.3	550.9
Net profit	200.9	250.3	302.1	445.3	540.9
Reported EPS (HK\$)	0.044	0.053	0.067	0.097	0.118

Source: SBI E2-Capital

Table 8. Balance sheet items

HK\$m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Non-current assets	1,177.7	1,327.2	1,371.6	1,591.4	1,648.1
Property, plant and equipment	957.0	1,077.6	1,158.7	1,381.2	1,440.8
Investment property	47.0	51.0	51.0	51.0	51.0
Prepayments	56.4	59.1	49.4	47.6	45.7
Investment in associates	34.4	47.0	47.0	47.0	47.0
Other assets	83.0	92.5	65.6	64.7	63.6
Current assets	1,838.8	2,411.5	2,864.5	3,338.7	4,219.9
Inventories	472.2	672.9	782.9	922.2	1,175.5
Trade and bills receivables	1,019.7	1,303.9	1,596.9	1,827.4	2,246.8
Pledged deposits	39.1	57.4	0.0	0.0	0.0
Cash and cash equivalents	183.7	253.8	384.7	489.2	697.6
Other current assets	124.0	123.5	100.0	100.0	100.0
Non-current liabilities	197.1	278.4	354.2	434.2	514.2
Interest-bearing bank borrowings	169.8	236.9	320.0	400.0	480.0
Other non-current liabilities	27.4	41.5	34.2	34.2	34.2
Current liabilities	1,156.8	1,545.1	1,754.9	2,062.0	2,549.3
Trade and bills payables	655.9	857.2	962.5	1,121.4	1,425.7
Accrued liabilities and other payables	92.1	122.8	150.1	178.3	241.3
Tax payable	124.4	162.3	162.3	162.3	162.3
Interest borrowings	282.4	402.6	480.0	600.0	720.0
Other current liabilities	2.1	0.1	0.0	0.0	0.0
Total equity	1,662.5	1,915.1	2,126.6	2,433.4	2,804.0
MI	46.5	56.9	66.9	76.9	86.9

Source: SBI E2-Capital

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