

Tongda Group

Results snapshot

to summarize...

- Net profit for FY12/11A came in at HK\$250.3m, 3% higher than our estimates
- Gross margin was improved to 19.2% for the year
- Full year dividend of HK\$0.017 represents 5.3% dividend yield
- Strong demand of handsets to continue especially for domestic brands
- Remain BUY with TP at HK\$0.565 until major post-results review

Strong revenue growth with slight gross margin improvement for 2011. Tongda announced its annual results for FY12/11A last night. Revenue increased 42% YoY to HK\$2,653.5m, which was largely driven by strong handset growth as we have previously discussed. For FY12/11A, handset sales increased 49% to HK\$1,420.4m, which contributed 45% revenue of the year. Electrical appliances and notebook computers recorded 30% to 40% YoY increment. Gross margin was improved to 19.2% for FY12/11A compared to 17.4% a year ago while net profit increased 25% YoY to HK\$250.3m, falling in the mid-range of market forecast. A final dividend of HK\$0.01 per share was announced for the year. Together with HK\$0.007 per share interim dividend, a total dividend of HK\$0.017 per share represents 5.3% dividend yield with its 32% dividend payout ratio.

Table 1. YoY changes of key items for FY12/11A results

Year-end Dec (HK\$m)	FY12/10A	FY12/11A	YoY
Revenue	2,348.3	3,147.1	34%
Handset	950.7	1,420.4	49%
Electrical appliances	602.4	784.0	30%
Notebook computer	321.5	449.2	40%
Ironware parts	330.2	376.9	14%
Comm. facilities and others	143.4	116.7	(19%)
Gross profit	407.6	605.3	49%
EBIT	262.1	388.1	48%
Net profit	200.9	250.3	25%

Source: SBI E2-Capital

Several deviations while net profit largely in line with expectation. For 2011A results, there are several deviations from our estimates. Revenue came in 14% higher than our estimates. Besides, actual gross margin was actually 0.9 pcp higher than our expectation. Nevertheless, there was an underestimation of finance expenses as well as tax expenses. Net profit was HK\$250.3m for the year, which was merely 3% higher than our estimation.

Table 2. Actual results and deviation from our estimates

Year to Dec (HK\$m)	FY12/11A	Our estimates	Deviation
Revenue	3,147.1	2,772.9	+14%
Gross profit	605.3	508.4	+19%
EBIT	388.1	282.1	+38%
Net Profit	250.3	242.6	+3%

Source: SBI E2-Capital

Ticker	0698 HK
Rating	BUY (unchanged)
Price (HK\$)	0.320
Target Price (HK\$)	0.565 (+77%)
12m Price Range (HK\$)	0.07 - 0.47
Market cap. (US\$m)	191.9
Daily t/o (US\$m)	0.2
Free float (%)	44.5

Financial summary

Year to Dec	09A	10A	11A	12F	13F
Turnover (HK\$m)	1,800	2,348	3,147	3,245	3,719
Net Profit (HK\$m)	102	201	250	299	347
EPS (HK\$)	0.025	0.044	0.053	0.064	0.074
P/E (x)	12.7	7.2	6.0	5.0	4.3
P/B (x)	1.08	0.90	0.80	0.71	0.64
EV/EBITDA (x)	6.7	4.7	3.8	2.8	2.4
Yield (%)	2.5	4.9	5.7	7.0	8.1
ROE (%)	7.9	13.2	14.1	15.0	15.6
ROCE (%)	7.6	11.7	12.9	14.3	14.6
N. Gear. (%)	6.5	12.4	7.6	cash	cash

Source: SBI E2-Capital

	12F	13F	14F
Consensus EPS (HK\$)	0.062	0.072	-
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 (%)	23.2	25.3	(25.0)
Actual price changes (%)	25.5	45.5	(31.6)



Source: Bloomberg

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Further growth in handset market and expecting contribution from light guide plate sales. 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, which is the major customer base of Tongda. For instance, the management estimated that Huawei sourced 30% to 40% plastic casing from the company. On the other hand, the management expects LCD TV market is to rebound progressively in 2012. As such, leveraging on the technology know-how from Matsushita and its own IML experience, the JV should be able to record sales with domestic TV brands in the year with a target sales of up to RMB200m.

Remain BUY and TP at HK\$0.565 hold for now until major post-results review. Based on the new forecast, our existing target price at HK\$0.565 represents 10.7x FY12/11A P/E. We would seek further discussion with management after annual results announcement and initiate major review on its business as well as target price.

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SELL : absolute downside of >10% over the next six months

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