

## Tongda Group

### Well-balanced consumer products portfolio

to summarize...

- Results generally in line while handset continued to be major income driver
- Lowered 1H income split largely on weak electrical appliances segment
- Performance of peers with definite focus reflect good demand for notebook
- Overall sales and profit slightly adjusted downwards on new assumptions
- Maintain BUY for well-balanced consumer product portfolio with domestic focus
- Target price lowered to HK\$0.561 from HK\$0.578 at 17.5% discount rate

#### Results generally in line while handset continued to be major income driver.

Tongda announced its interim results Wednesday. Total turnover was up 9.2% YoY to HK\$1,398m for 1H FY12/12A, generally in line with our expectation. Of HK\$118m increment, handset continued to be the major contributor which offset weakness in electrical appliances segment. At the same time, gross profit increased 29.6% YoY to HK\$309m, representing an improvement of gross margin to 22.1% in the latest interim compared to 18.6% and 19.7% in 1H and 2H of 2011A respectively. Net profit was HK\$113m for the period, up 11% YoY from a year ago partly due to HK\$16.1m MI. Table 1 shows interim sales and profit summary for the latest 3 interims.

**Table 1. Interim sales and profit summary**

HK\$m	1H 11A	2H11A	1H 12A	YoY
Total turnover	1,280	1,867	1,398	118
Handset	448	972	615	167
Electrical appliances	422	362	280	(143)
Notebook computers	179	270	252	72
Total turnover	1,280	1,867	1,398	9.2%
Gross profit	238	367	309	29.6%
Net profit	102	148	113	11.0%

Source: SBI E2-Capital

**Lowered 1H income split largely on weak electrical appliances segment.** In the past 3 years, 1H used to contribute 35%-45% revenue and 40%-45% net profit of the corresponding full year. Despite good momentum seen in handset segment, 1H revenue this year was merely equivalent to 34.3% of our full year expectation, which was close to our lower range as we have discussed in our previous update. Weaker electrical appliances growth was part of reason. Nevertheless, the management expects customers to strive for full year performance, similar to 1H and 2H in 2009.

**Table 2. Interim contribution to full year on revised**

HK\$m	1H 10A	1H 11A	Prev. 1H 12A	Cur.1H 12A
Revenue	1,039	1,280	1,398	1,398
Contribution to full year	44.3%	40.7%	34.3% (F)	35.7%
Net profit	87	102	113	113
Contribution to full year	43.1%	40.8%	37.5% (F)	37.8%

Source: SBI E2-Capital

#### Performance of peers with definite focus reflect good demand for notebook.

Ju Teng (3336 HK), one of Tongda's peers which specialized in producing tablets / PC casing, earlier in Jun issued a profit alert. While industry players were cautious towards general outlook of 2012, overall industry turned out to enjoy reasonable growth in volume and even expanding margin at least in 1H. Demand for handset and notebook may remain strong especially with support from domestic brands.

Ticker	0698 HK
Rating	BUY
Price (HK\$)	0.280
Target Price (HK\$)	0.561 (+100%)
12m Price Range (HK\$)	0.180 - 0.365
Market cap. (US\$m)	168.1
Daily t/o (US\$m)	0.08
Free float (%)	44.6

#### Financial summary

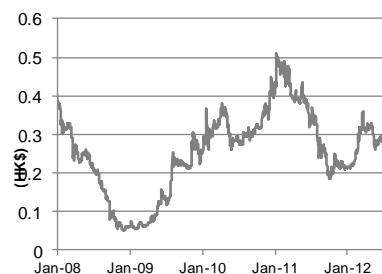
Year to Dec	10A	11A	12F	13F	14F
Turnover (HK\$m)	2,348	3,147	3,916	5,493	6,538
Net Profit (HK\$m)	201	250	300	431	528
EPS (HK\$)	0.044	0.053	0.071	0.104	0.127
P/E (x)	6.5	5.2	4.4	3.0	2.5
P/B (x)	0.81	0.71	0.63	0.55	0.48
EV/EBITDA (x)	4.3	3.2	2.7	2.1	1.5
Yield (%)	6.4	6.1	8.5	12.4	15.2
ROE (%)	13.2	14.0	14.7	18.3	19.2
ROCE (%)	12.4	15.1	15.3	18.6	19.5
N. Gear. (%)	14.0	17.5	12.0	14.7	6.5

Source: SBI E2-Capital

	12F	13F	14F
Consensus EPS (HK\$)	0.067	0.081	0.098
Previous earnings (HK\$m)	302.1	445.3	540.9
Previous EPS (HK\$)	0.067	0.097	0.118

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(5.7)	1.5	5.9
Actual price changes (%)	(3.4)	7.7	9.8



Source: Bloomberg

Kevin Mak, CFA

(852) 2533 3708

kevinmak@sbie2capital.com

**Overall sales and profit slightly adjusted downwards on new assumptions.** Table 3 shows our revised sales forecast while Table 4 shows revised gross profit breakdown. While handset and notebook computers sales assumption largely remain the same, we lower our sales forecast of electrical appliances to HK\$784m for 2012F from HK\$941m, which represents no growth this year. As such, our revised total revenue forecast will be HK\$3,916m and HK\$5,493m for FY12/12F and FY12/13F, down from HK\$4,072m and HK\$5,681m. At the same time, however, due to robust demand at least in handset and notebook computer segments, we slightly revised up segments gross margin to reflect the current market trend. On a overall basis, gross profit was lowered slightly to HK\$732m this year from HK\$751m.

**Table 3. Revised sales forecast**

HK\$m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Total turnover	2,348	3,147	3,916	5,493	6,538
Electrical fittings revenue	1,875	2,654	3,422	5,000	6,045
Handset	951	1,420	2,000	3,250	3,900
Electrical appliances	603	784	784	941	1,105
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. Revised gross profit breakdown**

HK\$m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Handset	190	305	405	658	790
Electrical appliances	105	149	139	167	196
Notebook computers	72	108	133	159	187
Light guide plate	0	0	5	16	43
Others	40	43	50	50	50
<u>Gross margin estimation</u>					
Handset	20.0%	21.5%	20.3%	20.3%	20.3%
Electrical appliances	17.5%	19.0%	17.8%	17.8%	17.8%
Notebook computers	22.5%	24.0%	22.8%	22.8%	22.8%
Light guide plate	n.a.	n.a.	10.0%	15.0%	20.0%

Source: SBI E2-Capital

**Remain BUY on balanced consumer product portfolio focusing on domestic brand; TP slightly down to HK\$0.561 from HK\$0.578.**

We value Tongda with discounted cash flow model at 17.5% discount rate and the new target price is HK\$0.561 per share, which represents 8.8x and 6.1x FY12/12F and FY12/13F P/E based on HK\$300.2m and HK\$431.2m net profit for the respective years. Table 5 and Table 6 show profit and loss forecast as well as balance sheet items respectively. Awarded as High New Technology Enterprises, Tongda income tax rate was lowered to 15%. On the other hand, with termination of a non-wholly owned loss-making subsidiary, Tongda has relatively large minority interest since 2012F, which we estimated at 70% of total handset income of Tongda with 10% net margin for a 25% minority as the company owns 75% of the subsidiary concerned.

**Table 5. 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	3,915.5	5,493.1	6,538.4
Cost of goods sold	(1,940.7)	(2,541.8)	(3,183.1)	(4,442.4)	(5,271.9)
Gross profit	407.6	605.3	732.4	1,050.7	1,266.5
Operating expenses	(145.4)	(217.3)	(293.2)	(411.3)	(489.6)
Operating profit	262.1	388.1	439.2	639.4	776.9
Share of profit of an associate and JV	2.6	2.1	0.9	0.0	0.0
Finance costs	(20.3)	(53.3)	(49.0)	(65.3)	(75.0)
Profit before tax	244.5	336.9	391.1	574.2	701.9
Income tax expense	(34.2)	(77.4)	(58.7)	(86.1)	(105.3)
Total profit	210.2	259.5	332.5	488.0	596.6
Net profit	200.9	250.3	300.2	431.2	528.4
Reported EPS (HK\$)	0.044	0.053	0.071	0.104	0.127

Source: SBI E2-Capital

Table 6. Balance sheet items

HK\$m	FY12/10A	FY12/11A	FY12/12F	FY12/13F	FY12/14F
Non-current assets	1,177.7	1,327.2	1,339.2	1,555.0	1,608.0
Property, plant and equipment	957.0	1,077.6	1,121.3	1,339.8	1,395.8
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	70.6	69.7	68.6
Current assets	1,838.8	2,411.5	2,748.3	3,373.9	4,122.9
Inventories	472.2	672.9	722.5	920.6	1,101.5
Trade and bills receivables	1,019.7	1,303.9	1,485.3	1,825.7	2,115.3
Pledged deposits	39.1	57.4	0.0	0.0	0.0
Cash and cash equivalents	183.7	253.8	440.6	527.6	806.1
Other current assets	124.0	123.5	100.0	100.0	100.0
Non-current liabilities	197.1	278.4	314.2	394.2	434.2
Interest-bearing bank borrowings	169.8	236.9	280.0	360.0	400.0
Other non-current liabilities	27.4	41.5	34.2	34.2	34.2
Current liabilities	1,156.8	1,545.1	1,608.1	2,001.2	2,323.3
Trade and bills payables	655.9	857.2	887.0	1,121.2	1,334.2
Accrued liabilities and other payables	92.1	122.8	138.8	177.6	226.8
Tax payable	124.4	162.3	162.3	162.3	162.3
Interest borrowings	282.4	402.6	420.0	540.0	600.0
Other current liabilities	2.1	0.1	0.0	0.0	0.0
Total equity	1,662.5	1,915.1	2,165.3	2,533.5	2,973.4
MI	46.5	56.9	91.9	148.8	217.0

Source: SBI E2-Capital

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

#### SBI E2-Capital stock ratings:

**STRONG BUY** : absolute upside of >50% over the next three months

**BUY** : absolute upside of >10% over the next six months

**HOLD** : absolute return of -10% to +10% over the next six months

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

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

**Analyst certification:** The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

**Disclaimer:** This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Financial Services Limited ('SBI E2-Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Financial Services Limited. All rights reserved.