

## Tongda Group

### Riding on local consumer electronics brands

to summarize...

- 2H results should be in line with estimates except light guide plate business
- Growth rates apparently accelerated in 2H for handsets segment
- Satisfactory gain in electrical appliances and notebook segments
- Possibly slower-than-expected light guide plate growth
- Retain BUY and TP at HK\$0.565 for now until major post-results review

#### 2H results should be in line with estimates except light guide plate business.

Tongda is to announce annual results of FY12/11F. According to our channel checks, 2H results should be strong with good performance especially in handsets, notebook computer and electrical appliance segments. Nevertheless, shipment of light guide plate should be minimal in FY12/11F due to a pause in orders from LED manufacturers in Japan. Table 1 shows accelerated handset growth for FY12/11F and reduced light guide plate volume by deferring sales target for 1 year.

**Table 1. Sales assumptions revised on reduced LGP estimates**

Year to Dec (HK\$ m)	10A	11F	12F	13F
Revenue	2,348.3	2,772.9	3,245.1	3,719.5
Electrical fittings	1,874.7	2,075.1	2,324.3	2,587.3
Handset	950.7	1,093.3	1,257.3	1,445.9
Electrical appliance	602.5	650.6	702.7	758.9
Notebook computer	321.5	331.1	364.3	382.5
Light guide plate	0.0	0.0	104.9	209.9
Touch screen glass	0.0	236.3	354.5	460.8
Others	473.6	461.4	461.4	461.4

Source: SBI E2-Capital

**Growth rates apparently accelerated in 2H for handsets segment.** We believe Tongda is to receive higher sales on robust customers' performances for the year and possibly for 2012. For instance, for handset segment, Tongda's major customers, ZTE (0763 HK) and Huawei, are performing especially well. Table 2 shows worldwide handset shipment (sell-in) for the latest 4 interims from highest YoY growth in 2H 11 to the lowest. For top 10 vendors, ZTE and Huawei recorded highest YoY growth rates in 2H 11 of more-than-doubled shipments, which are above 1H YoY growth rates. In addition to strong 2011 sales, both companies expect similarly aggressive growth for 2012 with increasing proportion of smartphone devices.

**Table 2. Handset shipments sorted by latest interim growth rate (sell-in)**

Million units	1H 10	2H 10	1H 11	2H 11
<b>ZTE</b>	<b>17.9</b>	<b>18.2</b>	<b>34.8</b>	<b>38.9</b>
<b>Huawei</b>	<b>12.8</b>	<b>14.6</b>	<b>21.0</b>	<b>30.5</b>
Apple iPhone	17.2	30.3	39.0	54.1
HTC	8.7	15.9	21.8	23.3
Samsung	128.1	152.1	144.0	178.5
Motorola	16.8	20.4	19.6	23.2
Blackberry	21.7	26.3	28.1	25.9
Nokia	218.9	234.1	197.0	220.0
SonyEricsson	21.5	21.6	15.7	18.5
LG	57.7	59.0	49.3	41.1
Others	103.0	143.6	169.7	159.3
Total	624.2	736.2	740.0	813.2

Source: ABI Research

Ticker	0698 HK
Rating	BUY (unchanged)
Price (HK\$)	0.285
Target Price (HK\$)	0.565 (+98%)
12m Price Range (HK\$)	0.07-0.480
Market cap. (US\$m)	170.9
Daily t/o (US\$m)	0.2
Free float (%)	44.5

#### Financial summary

Year to Dec	09A	10A	11F	12F	13F
Turnover (HK\$m)	1,800	2,348	2,773	3,245	3,719
Net Profit (HK\$m)	102	201	243	299	347
EPS (HK\$)	0.025	0.045	0.052	0.064	0.074
P/E (x)	9.8	5.5	5.5	4.5	3.8
P/B (x)	0.97	0.80	0.71	0.63	0.57
EV/EBITDA (x)	6.0	4.2	3.4	2.5	2.1
Yield (%)	2.8	5.5	6.4	7.9	9.1
ROE (%)	7.9	13.2	13.7	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

	11F	12F	13F
Consensus EPS (HK\$)	0.050	0.060	0.070
Previous earnings (HK\$m)	255.6	293.9	330.3
Previous EPS (HK\$)	0.053	0.061	0.069

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	24.3	11.9	(30.3)
Actual price changes (%)	30.7	33.8	(35.6)



Source: Bloomberg

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**Satisfactory gain in electrical appliances, notebook and touch screen glass segments.** For electrical appliances, major customers of Tongda include Haier (1169 HK) and Midea (000527 CH). While growth in 2H may not be especially high because of large-sized units sales in 1H, 2H should also see considerable increase. For notebook sub-segment, its clients recorded significant increase in sales. For instance, Lenovo (0992 HK) recorded 30% YoY increase in laptop sales to US\$4.5b for the latest quarter ended Dec 2011. In fact, Lenovo is said to be number 2 tablet vendor in China with record overall market share of 35.3% by end of 2011. We believe our previous estimates of 8%-10% YoY increment for the 2 sub-segments are reasonable.

**Slower-than-expected light guide plate growth.** As we have discussed after interim results in Aug, LED manufacturers remained conservative after the Earthquake in Japan. By the end of 2011, there was still no bulk order from Japanese customers. For TCL, which began to place small orders since then, has not proceeded with bulk orders. As such, we revise numbers for light guide plate segment by deferring sales target by 1 year. That said, we model nil contribution for FY12/11F and limited contribution for FY12/12F. Table 3 shows that summary on assumption changes in connection to sales.

**Table 3. Summary on assumption changes in connection to sales**

Category	Change in sales
Handset	YoY growth changes to 15% from 10% for FY12/11F
Electrical appliance	No Change at 8% YoY growth rate
Notebook computer	No Change at 10% YoY growth rate
Light guide plate	Sales target deferred by 1 year
Touch screen glass	No Change in gradual deceleration of YoY growth rate
Others	No Change at zero growth rate

Source: SBI E2-Capital

**Slight margin improvement despite slow in light guide plate segment.** We adjusted our forecasts mildly to reflect up-picking handset market as well as slow down in light guide plate business. At the same time, with better-than-expected demand for global consumer electronics, we slightly revise gross margin for various segments of Tongda. For instance, we maintained overall gross margin at 18.3% for FY12/11F with increased individual segment margin by 1 pcp that compensates removal of contribution from higher margin light guide plate business for the period. Thereafter, we have our new forecasts for FY12/11F, where the top line is said to grow 18.1% YoY to HK\$2,773m and net profit 20.8% YoY to HK\$243m.

**Table 4. P&L forecasts**

Year to Dec (HK\$ m)	09A	10A	11F	12F	13F
Revenue	1,800.3	2,348.3	2,772.9	3,245.1	3,719.5
COGS	(1,497.9)	(1,940.7)	(2,374.3)	(2,750.9)	(3,129.1)
Gross profit	302.4	407.6	508.4	616.9	725.7
Other income and gain, net	25.0	36.5	33.2	38.2	42.5
Selling and distribution costs	(49.0)	(53.1)	(66.4)	(77.7)	(89.1)
Administrative expenses	(108.1)	(122.8)	(141.3)	(162.0)	(185.7)
Other expenses, net	(18.6)	(6.0)	(13.9)	(15.9)	(17.9)
Finance costs	(16.7)	(20.3)	(38.0)	(42.0)	(43.0)
Share of profits and losses of associates	3.1	2.6	0	0	0
Share of profits and losses of a jointly-controlled entity	0.0	0.0	0	0	0
Profit before tax	138.1	244.5	282.1	357.5	432.7
Income tax expenses	(24.2)	(34.2)	(39.5)	(53.6)	(73.6)
Minority interests	(11.7)	(9.3)	0.0	(4.7)	(12.6)
Net profit	102.1	200.9	242.6	299.1	346.5

Source: SBI E2-Capital

**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 10.9x FY12/11F 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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**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

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