

Tongda Group

Will interim be a boost?

to summarize...

- China's production volume of mobile handset and laptop computer increased 15.8% and 16.3%, respectively in Jan-May 2011. The two applications represent 50% of TDG's sales.
- Key customers such as ZTE (0762 HK), Huawei, TCL Communication (2618 HK) and Lenovo (0992 HK) reported satisfactory results with optimistic guidance.
- Our growth assumptions seem fair under such context. Therefore, we hold our forecasts, expecting TDG's net profit to increase 35% in FY12/11F to HK\$272m.
- Share price was weak. Coming interim results could be a boost. Our target is HK\$0.565.

Customer sectors kept moving forward in Jan-May. MIIT's statistics showed total production volume (by above-scale manufacturers) of mobile handsets and laptop computers in China increased 15.8% and 16.3%, respectively, in Jan-May, or 20.8% and 16.4% in the single May. The two industries both are core customers of TDG, contributing 50%+ of the latter's revenue. Picture of home electrical appliances sector, another major revenue source of TDG, is a little blurred. On one side, slowdown has been observed for the entire sector, partly due to the macro control on property market in China. On the other side, some particular products, like washing machine and refrigerator, performed well, according to our channel check.

Table 1. Production volume of mobile handsets and laptop computers in China

(units m)	Jan-May	Jan-May	Growth	May 2011	May 2010	Growth
	2011	2010				
Mobile handset	417.9	361.0	15.8%	84.2	69.7	20.8%
Laptop computer	84.3	72.5	16.3%	16.6	14.2	16.4%

Source: MIIT

Key customers performed well. We also cross checked several key customers' performances, although TDG has a diversified client base. The outcome seems positive.

- ZTE and Huawei – both re-iterated their 2011 sales target lately for mobile handsets at 80m units and 60m units, up 33% (from 60m) and 88% (from 32m) YoY, respectively.
- TCL Communication – reported 51% handset volume growth in 1Q 2011 and felt confident toward 2Q.
- Lenovo – laptop PC shipment increased 15% 1Q 2011.

Growth estimates remain intact. In our previous estimates, we assumed 10% and 4% revenue growth for TDG's mobile handset and home appliances businesses in FY12/11F, which looks still prudent. Laptop division was incorporated with a higher assumption of 30%, which is backed by an expansion in 4Q 2010, doubling the company's computer casing capacity. The softening global PC market might have limited impact on it. Meanwhile, new products, including LGP and TSG, are anticipated to contribute aggregate HK\$438m turnover (14.6% of total) in FY12/11F. Although we hold the estimates at the moment, we admit downside risk increased due to uncertain global economy environment as well as subsequent effect of Japanese earthquake.

Ticker	0698 HK
Rating	BUY (unchanged)
Price (HK\$)	0.350
Target Price (HK\$)	0.565 (+61%)
12m Price Range (HK\$)	0.269-0.527
Market cap. (US\$m)	209.9
Daily t/o (US\$m)	0.9
Free float (%)	44.9

Financial summary

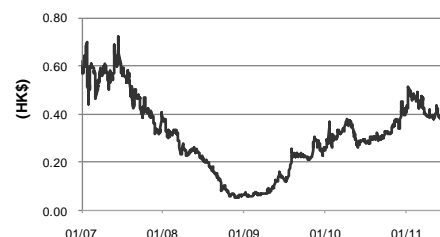
Year to Dec	09A	10A	11F	12F	13F
Turnover (HK\$m)	1,800	2,348	3,001	3,437	3,901
Net Profit (HK\$m)	102	201	272	312	350
EPS (HK\$)	0.025	0.043	0.056	0.065	0.073
P/E (x)	16.9	9.4	7.4	6.6	5.8
P/B (x)	1.37	1.21	1.10	0.99	0.89
EV/EBITDA (x)	9.5	6.1	4.6	4.0	3.5
Yield (%)	2.0	2.6	4.6	5.3	6.0
ROE (%)	8.1	13.6	15.6	15.9	16.0
ROCE (%)	7.7	11.8	14.1	14.6	14.8
N. Gear. (%)	6.5	12.7	8.6	cash	cash

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (HK\$)	0.058	0.073	0.088
Previous earnings (HK\$m)	272	312	350
Previous EPS (HK\$)	0.056	0.065	0.073

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(5.9)	(3.5)	18.4
Actual price changes (%)	(7.9)	(12.1)	27.9



Source: Bloomberg

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Table 2. Sales assumptions

Year to Dec (HK\$ m)	09A	10A	11F	12F	13F
Revenue	1,800.3	2,348.3	3,001.5	3,437.3	3,901.1
Electrical fittings	1,305.7	1,874.7	2,090.3	2,360.0	2,642.6
Handset	630.3	950.7	1,045.8	1,202.7	1,383.1
Electrical appliance	445.1	602.5	626.5	676.7	730.8
Notebook computer	225.5	321.5	417.9	480.6	528.7
Ironware parts division	338.1	330.2	330.2	330.2	330.2
Communication facilities	156.5	143.4	143.4	143.4	143.4
LGP	-	-	175.0	209.9	272.8
TSG	-	-	262.6	393.9	512.1
Revenue growth (%)	29.2	30.4	27.8	14.5	13.5
Electrical fittings	54.4	43.6	11.5	12.9	12.0
Handset	-	50.8	10.0	15.0	15.0
Electrical appliance	-	35.4	4.0	8.0	8.0
Notebook computer	-	42.6	30.0	15.0	10.0
Ironware parts division	(17.7)	(2.4)	0.0	0.0	0.0
Communication facilities	13.8	(8.3)	0.0	0.0	0.0
LGP	-	-	-	19.9	30.0
TSG	-	-	-	50.0	30.0

Source: SBI E2-Capital

Will 1H results boost share price? Share price has been sliding in the recent weeks, which we reckon could be a result of weak market. The stock is trading at 8.1x. We forecast it will have 35% earnings this year in our forecasts. Thus, a satisfactory interim result (released in Aug) could be a short term catalyst. Our target is unchanged at HK\$0.565 based on 10x FY12/11F P/E.

Table 3. P&L

Year to Dec (HK\$ m)	09A	10A	11F	12F	13F
Revenue	1,800.3	2,348.3	3,001.5	3,437.3	3,901.1
COGS	(1,497.9)	(1,940.7)	(2,453.5)	(2,801.5)	(3,168.1)
Gross profit	302.4	407.6	548.0	635.8	732.9
Other income and gain, net	25.0	36.5	31.3	33.2	36.6
Selling and distribution costs	(49.0)	(53.1)	(66.4)	(76.0)	(86.3)
Administrative expenses	(108.1)	(122.8)	(141.3)	(161.8)	(183.6)
Other expenses, net	(18.6)	(6.0)	(9.0)	(10.3)	(11.7)
Operating profit	151.6	262.1	362.7	420.9	488.0
Finance costs	(16.7)	(20.3)	(19.0)	(21.0)	(21.5)
Share of profits and losses of associates	3.1	2.6	-	-	-
Share of profits and losses of a jointly-controlled entity	0.0	0.0	-	-	-
Profit before tax	138.1	244.5	343.7	399.9	466.5
Income tax expenses	(24.2)	(34.2)	(48.1)	(60.0)	(79.3)
Minority interests	(11.7)	(9.3)	(23.6)	(28.3)	(36.8)
Net profit	102.1	200.9	271.9	311.6	350.3

Source: SBI E2-Capital

P&L (HK\$m)	09A	10A	11F	12F	13F	Cash Flow (HK\$m)	09A	10A	11F	12F	13F
Year to Dec						Year to Dec					
Turnover	1,800.3	2,348.3	3,001.5	3,437.3	3,901.1	EBIT	149.5	261.0	361.7	419.0	485.8
% chg	29.2	30.4	27.8	14.5	13.5	Depre./amort.	81.6	98.6	111.4	124.1	136.9
Gross profit	302.4	407.6	548.0	635.8	732.9	Net int. paid	(14.6)	(19.1)	(18.1)	(19.1)	(19.4)
EBITDA	231.2	359.6	473.1	543.2	622.7	Tax paid	(21.9)	(20.6)	(124.4)	(48.1)	(60.0)
Depre./amort.	(81.6)	(98.6)	(111.4)	(124.1)	(136.9)	Dividends received	1.5	4.5	0.0	0.0	0.0
EBIT	149.5	261.0	361.7	419.0	485.8	Gross cashflow	196.2	324.3	330.6	475.9	543.4
Net int. income/(exp.)	(14.6)	(19.1)	(18.1)	(19.1)	(19.4)	Chgs. in working cap.	44.0	(279.0)	(112.4)	(44.5)	(218.0)
Exceptionals	-	-	-	-	-	Operating cashflow	240.2	45.3	218.2	431.4	325.4
Associates	3.1	2.6	0.0	0.0	0.0	Capex	(153.4)	(206.4)	(150.0)	(150.0)	(150.0)
Jointly-controlled entit.	-	-	-	-	-	Free cashflow	86.8	(161.1)	68.2	281.4	175.4
Pre-tax profit	138.1	244.5	343.7	399.9	466.5	Dividends paid	(23.1)	(49.1)	(94.1)	(100.7)	(114.5)
Tax	(24.2)	(34.2)	(48.1)	(60.0)	(79.3)	Net distribution to MI	7.9	0.1	0.0	0.0	0.0
Minority interests	(11.7)	(9.3)	(23.6)	(28.3)	(36.8)	Investments	0.0	(8.1)	0.0	0.0	0.0
Net profit	102.1	200.9	271.9	311.6	350.3	Disposals	0.2	20.6	0.0	0.0	0.0
% chg	56.3	96.8	35.3	14.6	12.4	New shares	1.1	79.7	72.0	0.0	0.0
Dividends	(37.4)	(49.1)	(95.2)	(109.1)	(122.6)	Change in bank loans	(34.8)	104.8	(72.4)	40.2	10.1
Retained earnings	64.7	151.8	176.8	202.5	227.7	Others	16.3	(5.0)	(0.0)	0.0	(0.0)
EPS (HK\$) - Basic	0.025	0.045	0.058	0.065	0.073	Net cashflow	54.4	(18.0)	(26.3)	220.8	71.0
EPS (HK\$) - F.D.	0.025	0.043	0.056	0.065	0.073	Cash reserve - Beg.	191.6	246.1	228.0	201.7	422.5
DPS (HK\$)	0.009	0.011	0.020	0.023	0.025	Cash reserve - End.	246.1	228.0	201.7	422.5	493.5
No. sh.s o/s (m) - W.A.	4,051.0	4,465.1	4,713.6	4,822.3	4,822.3						
No. sh.s o/s (m) - Y.E.	4,305.8	4,604.9	4,822.3	4,822.3	4,822.3						
No. sh.s o/s (m) - F.D.	4,067.1	4,672.8	4,822.3	4,822.3	4,822.3						
						Interim Results (HK\$m)	08A	09A	10A		
Margins (%)						Six months to Jun					
Gross	16.8	17.4	18.3	18.5	18.8	Turnover	614.8	678.1	1,039.5		
EBITDA	12.8	15.3	15.8	15.8	16.0	% chg	30.0	10.3	53.3		
EBIT	8.3	11.1	12.1	12.2	12.5	Profit from operations	63.8	65.1	106.1		
Pre-tax	7.7	10.4	11.5	11.6	12.0	Interest expenses	(13.7)	(9.7)	(8.3)		
Net	5.7	8.6	9.1	9.1	9.0	Associates	5.4	0.4	2.0		
						Jointly-controlled entit.					
						Pre-tax profit	55.6	55.8	99.8		
						Tax	(7.9)	(10.6)	(16.0)		
						Minority interests	(2.3)	(4.2)	(2.4)		
						Net profit	45.3	41.0	81.4		
						% chg	(47.9)	(9.6)	98.6		
						EPS (HK\$) - Basic	0.014	0.010	0.018		
						DPS (HK\$)	-	0.010	0.018		
Balance Sheet (HK\$m)	09A	10A	11F	12F	13F	Shareholding Structure				Shares o/s (m)	%
Year to Dec						Mr. Wang Ya Nan				2,387.5	51.1
Fixed assets	853.3	988.0	1,028.0	1,055.2	1,069.7	Others				2,288.3	48.9
Intangible assets	22.8	22.8	34.4	34.4	34.4	Total				4,675.8	100.0
Other LT assets	157.4	167.0	154.0	152.6	151.2						
Cash	246.1	228.0	201.7	422.5	493.5						
Accounts receivable	630.6	1,019.7	1,190.4	1,266.8	1,518.7						
Other receivables	75.5	112.7	135.0	154.6	175.4						
Inventories	369.2	472.2	555.7	634.0	716.2						
Due from related co.s	0.0	0.0	0.0	0.0	0.0						
Other current assets	4.6	6.1	0.0	0.0	0.0						
Total assets	2,359.5	3,016.5	3,299.2	3,720.2	4,159.3						
Accounts payable	411.3	655.9	822.3	941.7	1,068.8						
Other payable	81.1	92.1	89.7	100.0	110.0						
Tax payable	112.2	124.4	48.1	60.0	79.3						
Due to related co.s	10.7	2.1	2.1	2.1	2.1						
ST debts	248.2	282.4	159.9	219.9	200.0						
Other current liab.	-	-	-	-	-						
LT debts	99.1	169.8	219.9	200.0	230.0						
Other LT liabilities	16.0	27.4	27.4	27.4	27.4						
Total liabilities	978.7	1,354.0	1,369.3	1,551.1	1,717.5						
Share capital	43.1	46.0	48.2	48.2	48.2						
Reserves	1,290.5	1,569.9	1,811.5	2,022.4	2,258.2						
Shareholders' funds	1,333.5	1,616.0	1,859.7	2,070.6	2,306.4						
Minority interest	47.3	46.5	70.2	98.5	135.3						
Total	1,380.8	1,662.5	1,929.9	2,169.1	2,441.8						
Capital employed	1,728.1	2,114.7	2,309.6	2,589.0	2,871.8						
Net (debt)/cash	(101.3)	(224.1)	(178.0)	2.6	63.5						
						Key Ratios	09A	10A	11F	12F	13F
						Net gearing (%)	15.7	7.8	14.7	9.9	Cash
						Net ROE (%)	5.5	8.1	13.6	15.6	15.9
						EBIT ROCE (%)	6.8	9.0	13.6	16.4	17.1
						Dividend payout (%)	36.7	36.6	24.4	35.0	35.0
						Effective tax rate (%)	20.8	17.5	14.0	14.0	15.0
						Net interest coverage (x)	4.3	10.3	13.7	20.0	21.9
						A/R turnover (days)	157.2	124.8	128.3	134.4	130.5
						A/P turnover (days)	81.4	82.1	100.4	110.0	114.9
						Stock turnover (days)	94.9	82.3	79.1	76.5	77.5

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