

Tongda Group

Market is recovering after a bit slow 1H

to summarize...

- Interim results are slightly behind our full year estimates due to weak macros. However, growth pattern remains in good shape with push from Chinese domestic clients and new products.
- Consumer electronics market got over the Japanese earthquake. Industry-wide recovery has been observed. The management expects a relatively strong 2H.
- Our forecast has been revised down slightly to reflect apparent slowdown in PC market due to rise of tablets.
- New FY12/11F earnings projection is HK\$256m, down from previous HK\$272m.
- Target price is unchanged at HK\$0.565, pending for further with management on company growth prospect.

Growth pattern met expectation although figure wise a bit behind. 1H results came out yesterday. Revenue went up 23% to HK\$1,280m while net profit up 18% to HK\$102m. Both figures are slightly behind our previous full-year forecasts, which we contribute to: 1) sluggish economy performance in the US and Europe; 2) Japanese earthquake; 3) rapid growth of tablet market, eroding conventional PC market, especially netbook. Nevertheless, we see the growth pattern is still broadly in line with our expectation, i.e. 1) Chinese domestic customers performed well with strong demand particularly for handset casings; 2) new products started to contribute meaningfully (our estimates: ~10% of 1H revenue from TSG and LGP). Meanwhile, we admit we under-estimated Japanese earthquake impact in our last report issued on 15th Jul.

Table 1. Brief comparison of 1H results and our full-year forecasts

Year to Dec (HK\$ m)	1H 10A	YoY growth	10F	YoY growth
Revenue	1,279.9	23.1%	3,001.5	27.8%
Net profit	104.0	20.2%	256.5	27.7%

Source: Company data, SBI E2-Capital

Catch-up is expected for 2H. As negative impact of the Japanese earthquake industry has been gradually digested, the entire consumer electronics industry is likely to have some moderate recovery in 3Q, according to our channel checks. The management also proves that order inflow has turned strong lately and expects some sort of catch-up in 2H, bringing 2H: 1H revenue split to 60:40 or even higher (FY12/10A: 56:44). Based on this guidance, our previous forecasts seem still achievable.

Table 2. Achievement of 1H results to our full-year forecasts

Year to Dec (HK\$ m)	1H 10A	10F	Achieved
Revenue	1,279.9	3,001.5	42.6%
Gross profit	238.4	548.0	43.5%
EBT	125.3	343.7	36.5%
Net profit	104.0	256.5	40.5%

Source: Company data, SBI E2-Capital

Estimates have been pencil downed slightly. Notwithstanding, we adjusted our forecasts downwards mildly mainly to reflect slowing-down PC market, which might extend into a long-term trend with rapid development of tablet products. Thereafter, we have our new forecasts for FY12/11F, where the top line is said to grow 24% to HK\$2,900m and net profit 27% to HK\$256m.

Ticker	0698 HK
Rating	BUY (unchanged)
Price (HK\$)	0.247
Target Price (HK\$)	0.565 (+129%)
12m Price Range (HK\$)	0.070-0.527
Market cap. (US\$m)	148.1
Daily t/o (US\$m)	0.7
Free float (%)	44.9

Financial summary

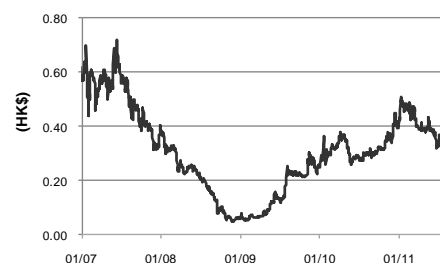
Year to Dec	09A	10A	11F	12F	13F
Turnover (HK\$m)	1,800	2,348	2,900	3,295	3,720
Net Profit (HK\$m)	102	201	256	294	330
EPS (HK\$)	0.025	0.045	0.054	0.061	0.068
P/E (x)	9.8	5.5	4.6	4.1	3.6
P/B (x)	0.80	0.70	0.65	0.58	0.52
EV/EBITDA (x)	5.9	3.8	3.0	2.6	2.3
Yield (%)	3.4	4.5	7.5	8.6	9.7
ROE (%)	8.1	13.6	14.8	15.1	15.2
ROCE (%)	7.7	11.8	13.4	14.1	14.4
N. Gear. (%)	6.5	12.7	9.0	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 (%)	(14.9)	(29.5)	(17.9)
Actual price changes (%)	(25.2)	(38.7)	(22.4)



Source: Bloomberg

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Table 3. P&L forecasts

Year to Dec (HK\$ m)	09A	10A	11F	12F	13F
Revenue	1,800.3	2,348.3	2,900.3	3,295.4	3,719.6
COGS	(1,497.9)	(1,940.7)	(2,370.3)	(2,685.3)	(3,019.9)
Gross profit	302.4	407.6	530.0	610.1	699.7
Other income and gain, net	25.0	36.5	33.4	37.7	41.6
Selling and distribution costs	(49.0)	(53.1)	(66.4)	(75.4)	(85.1)
Administrative expenses	(108.1)	(122.8)	(141.3)	(157.3)	(177.5)
Other expenses, net	(18.6)	(6.0)	(14.5)	(16.1)	(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	-	-	-
Share of profits and losses of a jointly-controlled entity	0.0	0.0	-	-	-
Profit before tax	138.1	244.5	303.3	356.9	417.7
Income tax expenses	(24.2)	(34.2)	(42.5)	(53.5)	(71.0)
Minority interests	(11.7)	(9.3)	(5.3)	(9.4)	(16.4)
Net profit	102.1	200.9	255.6	293.9	330.3

Source: SBI E2-Capital

Target price hold for now. Based on this new forecast, our current target price represents 10.4x one year forward P/E. On contrast, estimated EPS CAGR growth between FY12/11F and FY12/14F is 12%. Of course, such valuation may no longer particularly cheap amid current market turmoil. We are seeking further discussion with management for more details on its growth prospect and will release our new target price thereafter.

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

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

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