



Rating
Buy

Asia
Hong Kong

Technology
Hardware & Equipment

Company
Tongda Group Alert

Reuters 0698.HK Bloomberg 698 HK Exchange HSI Ticker 0698

Date
19 March 2015

Results

Price at 18 Mar 2015 (HKD)	1.15
Price target - 12mth (HKD)	1.45
52-week range (HKD)	1.32 - 0.77
HANG SENG INDEX	23,901

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Stock data

Market cap (HKDm)	6,285
Market cap (USDm)	809
Shares outstanding (m)	5,465.2
Major shareholders	-
Free float (%)	65
Avg daily value traded (USDm)	0.7

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	3,627	4,699	5,808
Net Profit (HKDm)	363.1	481.4	659.9
DB EPS (HKD)	0.07	0.09	0.12
PER (x)	6.0	13.1	9.5
Yield (net) (%)	5.6	2.5	3.7

Source: Deutsche Bank

Strong operating results, owing to gross margin expansion

Robust 2H14 results on strong smartphone casings and margin expansion

Tongda released 2H14 results, with sales of HK\$2.69bn (+39% YoY; 28% HoH), operating profit of HK\$397mn (+43% YoY; +47% HoH) and net profit of HK\$333mn (+45% YoY; +99% HoH). Gross margin/operating improved by 1.6pt/1.9pt to 24.6%/14.8%, respectively.

Strong top-line growth driven by smartphone casing orders

2H14 sales came in 4% higher than our estimates, driven by 1) strong orders from Huawei (Tongda is the key casing supplier for Huawei's hot-selling Honor and Ascend series), 2) market share gains with Xiaomi (expanding from Redmi to Mi series), and 3) strong orders from Oppo (for both plastic/metal casings)

Gross margin expansion, owing to product upgrade (metal casings, LDS, etc)

2H14 operating profit/net profit beat our estimate by 4%/8%, mainly due to strong gross margin of 24.6% (v.s. our estimate of 23.4%). We attributed this to better production scale and product spec/material, including the rising adoption of metal casings, NMT (nano-molding technology), LDS antenna, IMR plastic casings from its clients. Along with the spec upgrade, we estimate ASP for Tongda's smartphone casings could have grown by 5%-10% YoY, on a like-to-like comparison. For the metal casings, Huawei, Oppo, and Lenovo are key clients in 2014. We believe Tongda is likely to add new clients or gain higher order allocation from existing clients for metal casings in 2015, with sound execution and superior cost structure.

Valuation and risks

We are waiting for more details from the mgmt for the result and 2015 outlook. For now, we retain Buy rating and target price of HKD1.45 (12x 2015 EPS). 12x FW P/E implies 0.46x PEG, in line with its historical trading average. Risks include inventory, price competition and weak demand.

Figure 1: 2H14 result snapshot

	2H14	1H14	HoH	2H13	YoY	2H14(DBe)	% of diff
Sales	2,690	2,101	28.1%	1,937	38.9%	2,598	3.6%
Gross profits	661	482	37.2%	442	49.5%	608	8.8%
Op. profits	397	270	47.1%	277	43.3%	383	3.7%
Pre-tax income	405	235	72.1%	240	68.9%	363	11.6%
Net profit	333	167	99.2%	230	44.8%	314	5.8%
EPS (TWD)	0.06	0.03	99.2%	0.05	30.4%	0.06	

Margin analysis

Gross margin	24.6%	23.0%		22.8%		23.4%
Operating margin	14.8%	12.9%		14.3%		14.7%

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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