

FIT Hon Teng (6088 HK)

Weak 1Q23 as expected; Expect multiple drivers from iPhone/CPU socket/400G/EV in 2H23E

FIT Hon Teng announced 1Q23 results with net loss of US\$ 9.3mn, in-line with earlier preview and our estimates, mainly due to weak seasonality and US\$5mn expense on digital transformation. Despite near-term pressure for digitalization and overseas expansion, mgmt. maintained FY23E sales/earnings guidance, and expected earnings recovery in 2H23E, driven by new iPhone, 400G module, CPU socket and Prettl's M&A integration. We slightly revised FY23-25E EPS by 1-5% to reflect higher expense for business transformation. The stock now trades at 9.2x/7.5x FY23E/24E P/E. Reiterate BUY with new TP of HK\$2.18 based on same 11x FY24E P/E. Catalysts include M&A and TWS progress.

- 1Q23 dragged by weak CE demand and higher expense.** FIT 1Q23 results came in at revenue of US\$ 862mn (-18% YoY) and net profit of US\$ -9mn, in-line with its earlier announcement. By segment, smartphone/networking/computing/EV/system product revenue declined 20%/44%/19%/12%/0% YoY. Smartphone/computing suffered from high base and soft market demand, while networking segment was impacted by product optimization. 1Q23 earnings was also dragged by additional US\$5mn expense for FIT's digital transformation.
- Overseas expansion on track; Multiple growth drivers to emerge in 2H23E.** In addition to land purchase plan in India as announced, FIT also planned to rent extra land of area 480,000 sqm in Vietnam for global manufacturing expansion. Despite short-term earnings pressure in 1H23E, we believe new iPhone launch, 400G optical module, new CPU socket ramp-up, MagSafe product for MR and Prettl M&A consolidation will lead to revenue recovery 2H23E. Mgmt. also guided double-digit gross profit growth driven by improved product mix in FY23E. Global manufacturing expansion will allow FIT to capture opportunities in US major client's TWS projects and expansion in EV business, which will be major growth drivers in FY24/25E.
- Attractive risk/reward; Product rollouts and overseas expansion to boost growth in FY24/25E.** We trimmed our FY23-15E EPS by 1-5% to reflect higher investments and expenses in near term. Our new TP of HK\$2.18 is based on same 11x FY24E P/E (33% below 5-year hist. avg.). Trading at 9.2x/7.5x FY23E/24E P/E, we think risk-reward remains attractive. Upcoming catalysts include TWS order wins and Prettl M&A progress.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	4,490	4,531	4,495	5,014	5,513
YoY growth (%)	4.1	0.9	(0.8)	11.5	9.9
Net profit (US\$ mn)	136.8	170.3	143.6	177.7	220.3
YoY growth (%)	221.3	24.5	(15.7)	23.8	23.9
EPS (Reported) (US\$ cents)	2.04	2.42	2.06	2.55	3.16
Consensus EPS (US\$)	na	2.42	2.46	2.62	3.30
P/E (x)	13.4	6.6	9.2	7.5	6.0
P/B (x)	0.8	0.5	0.5	0.5	0.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	6.0	7.2	5.9	6.9	7.9
Net gearing (%)	na	na	na	na	na

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.18
(Previous TP)	HK\$2.30
Up/Downside	46.5%
Current Price	HK\$1.49

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Stock Data

Mkt Cap (HK\$ mn)	10,827.8
Avg 3 mths t/o (HK\$ mn)	15.7
52w High/Low (HK\$)	2.46/0.92
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

Foxconn Far East Ltd	71.1%
Lu Sung-Ching	5.5%

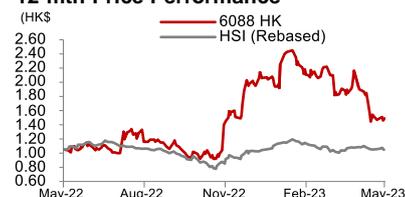
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-23.2%	-20.3%
3-mth	-29.4%	-24.2%
6-mth	2.8%	-9.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- FIT Hon Teng (6088 HK) – Recent correction overdone; Investment to accelerate “3+3 strategy” transition - 16 Mar 2023 ([link](#))
- FIT Hon Teng (6088 HK) – FY22 Preview: Strong execution of “3+3 Strategy”; Raise TP to HK\$2.66 – 14 Mar 2023 ([link](#))

Earnings Revision

Figure 1: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,495	5,014	5,513	4,690	5,217	5,729	-4%	-4%	-4%
Gross profit	835	887	976	830	923	1,014	1%	-4%	-4%
Operating profit	263	275	326	239	287	338	10%	-4%	-4%
Net profit	144	178	221	146	188	231	-1%	-5%	-4%
EPS (USD cents)	2.06	2.55	3.16	2.08	2.69	3.30	-1%	-5%	-4%
Gross margin	18.6%	17.7%	17.7%	17.7%	17.7%	17.7%	0.9 ppt	0 ppt	0 ppt
Operating margin	5.8%	5.5%	5.9%	5.1%	5.5%	5.9%	0.8 ppt	0 ppt	0 ppt
Net Margin	3.2%	3.6%	4.0%	3.1%	3.6%	4.0%	0.1 ppt	0 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,495	5,014	5,513	4,658	5,027	5,480	-3%	0%	1%
Gross profit	835	887	976	816	889	978	2%	0%	0%
Operating profit	263	275	326	256	293	328	3%	-6%	-1%
Net profit	144	178	221	165	192	219	-13%	-7%	1%
EPS (USD cents)	2.06	2.55	3.16	2.46	2.62	3.30	-16%	-3%	-4%
Gross margin	18.6%	17.7%	17.7%	17.5%	17.7%	17.8%	1.1 ppt	0 ppt	-0.1 ppt
Operating margin	5.8%	5.5%	5.9%	5.5%	5.8%	6.0%	0.3 ppt	-0.3 ppt	-0.1 ppt
Net Margin	3.2%	3.6%	4.0%	3.6%	3.8%	4.0%	-0.3 ppt	-0.3 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

US\$ 000	FY21	FY22	FY23E	FY24E	FY25E
Computing	803,167	819,708	860,693	946,763	1,069,842
...YoY		2%	5%	10%	13%
Smartphones	1,306,718	1,261,047	1,109,721	1,143,013	1,200,164
...YoY		-3%	-12%	3%	5%
Networking	879,468	753,854	633,237	664,899	698,144
...YoY		-14%	-16%	5%	5%
EV Mobility	138,894	152,814	366,286	593,464	724,959
...YoY		10%	140%	62%	22%
EV business		152,814	175,736	193,310	212,641
Prettl SWH		-	190,550	400,155	512,318
Systems Products	1,113,045	1,335,580	1,348,936	1,483,829	1,632,212
...YoY		20%	1%	10%	10%
Others	248,923	207,600	176,460	181,754	187,206
...YoY		-17%	-15%	3%	3%
Total	4,490,215	4,530,603	4,495,334	5,013,723	5,512,527
...YoY		0.9%	-0.8%	11.5%	9.9%

Source: Company data, CMBIGM estimates

Figure 4: P&L forecast

US\$ mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,315	4,490	4,531	4,495	5,014	5,513
...YoY	-1.3%	4.1%	0.9%	-0.8%	11.5%	9.9%
Cost of sales	-3,735	-3,817	-3,763	-3,660	-4,127	-4,536
Gross profit	580	673	768	835	887	976
GPM (%)	13%	15%	17%	19%	18%	18%
...YoY	-23.1%	16.1%	14.1%	8.7%	6.2%	10.1%
SG&A	-230	-266	-223	-328	-326	-336
...% of rev	-5.3%	-5.9%	-4.9%	-7.3%	-6.5%	-6.1%
R&D	-235	-301	-296	-301	-336	-369
...% of rev	-5.4%	-6.7%	-6.5%	-6.7%	-6.7%	-6.7%
Operating profit	125	177	307	263	275	326
OPM (%)	2.9%	3.9%	6.8%	5.8%	5.5%	5.9%
...YoY	-54.7%	41.6%	74.0%	-14.5%	4.7%	18.3%
Net profit	43	138	170	144	178	221
NPM (%)	1.0%	3.1%	3.7%	3.2%	3.6%	4.0%
...YoY	-81.9%	223.8%	23.2%	-15.0%	23.8%	23.9%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.18 (46.5% upside)

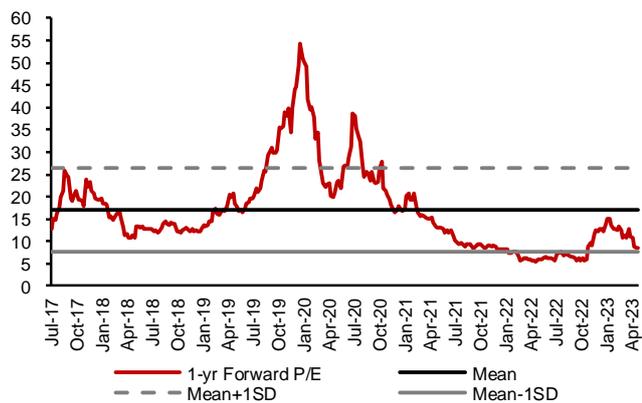
Our new 12m TP of HK\$ 2.18 is based on same 11x FY24E P/E (33% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and probability recovery. Trading at 9.2x/7.5x FY23/24E P/E, we think risk-reward is attractive. Upcoming catalysts include Prettl acquisition progress, Apple share gain and improving margins.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Global Connectors												
TE	TEL US	NR	37,697	119.63	NA	NA	18.2	15.9	3.3	3.0	18.5	20.0
Amphenol	APH US	NR	44,560	74.85	NA	NA	25.6	23.2	5.7	5.1	24.5	24.5
Fabrinet	FN US	NR	3,314	91.39	NA	NA	12.0	11.6	2.2	2.0	20.6	18.2
Aviat	6807 JP	NR	1,691	2462	NA	NA	14.5	14.4	1.3	1.2	9.4	9.5
Hirose	6806 JP	NR	5,137	18540	NA	NA	18.2	19.1	1.8	1.8	10.1	9.4
Luxshare	002475 CH	BUY	27,226	26.53	48.0	81%	17.6	14.3	1.8	1.6	10.5	11.4
Cheng Uei	2392 TT	NR	678	40.70	NA	NA	9.4	-	0.8	-	8.8	-
Foxconn	2354 TT	NR	2,411	52.40	NA	NA	14.0	12.0	0.7	0.7	5.0	5.6
Hon Hai	2317 TT	NR	47,352	105.00	NA	NA	10.0	8.7	0.9	0.9	9.8	10.7
Average							15.5	14.9	2.1	2.0	13.0	13.7
China technology												
FIT Hon Teng	6088 HK	BUY	1,386	1.49	2.18	46%	9.3	7.5	0.5	0.5	5.6	6.7
AAC Tech	2018 HK	HOLD	2,649	17.32	15.6	-10%	15.9	14.3	0.8	0.8	5.2	5.7
Sunny Optical	2382 HK	HOLD	11,610	82.95	86.8	5%	25.3	21.9	3.4	3.1	13.4	14.1
Tongda	698 HK	BUY	124	0.10	0.2	100%	2.8	2.5	0.1	0.1	2.9	4.7
BYDE	285 HK	HOLD	6,987	24.30	24.5	1%	16.6	13.6	1.7	1.6	10.4	11.4
Q tech	1478 HK	BUY	549	3.63	5.2	43%	7.6	5.6	0.7	0.7	9.8	12.0
TK Group	2283 HK	BUY	175	1.65	3.4	105%	3.2	4.2	0.7	0.7	20.7	17.8
FIH	2083 HK	NR	859	0.85	NA	NA	21.7	10.8	0.5	0.5	2.2	4.4
YOFC	6869 HK	NR	379	0.94	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	NR	1,762	16.36	NA	NA	17.4	12.1	3.9	3.0	23.6
Average							12.6	9.9	1.3	1.2	1.2	10.5

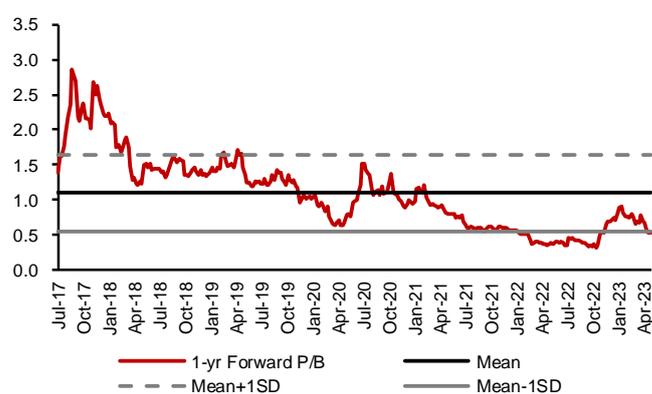
Source: Bloomberg, CMBIGM

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	4,315	4,490	4,531	4,495	5,014	5,513
Cost of goods sold	(3,735)	(3,817)	(3,763)	(3,660)	(4,127)	(4,536)
Gross profit	580	673	768	835	887	976
Selling expense	(97)	(105)	(93)	(148)	(135)	(143)
Admin expense	(134)	(161)	(130)	(180)	(191)	(193)
R&D expense	(235)	(301)	(296)	(301)	(336)	(369)
Others	11	70	58	57	50	55
Operating profit	125	177	307	263	275	326
Share of (losses)/profits of associates/JV	(9)	(8)	(46)	(46)	(46)	(46)
Interest expense	1	(2)	(14)	(12)	(10)	(8)
Pre-tax profit	117	167	248	205	219	272
Income tax	(74)	(31)	(78)	(62)	(42)	(52)
Minority interest	0	(1)	1	(1)	(1)	(1)
Net profit	43	137	170	144	178	220
BALANCE SHEET						
YE 31 Dec (US\$ mn)						
Current assets	2,848	3,034	2,764	2,563	2,875	3,193
Cash & equivalents	766	769	914	421	721	641
Account receivables	872	1,033	720	1,019	921	1,212
Inventories	944	982	967	959	1,070	1,176
ST bank deposits	126	98	66	66	66	66
Non-current assets	1,791	1,973	1,783	2,238	2,255	2,235
PP&E	728	823	753	1,208	1,225	1,205
Deferred income tax	135	133	131	131	131	131
Investment in JVs & assos	24	172	123	123	123	123
Intangibles	709	634	601	601	601	601
Other non-current assets	195	211	175	175	175	175
Total assets	4,639	5,007	4,547	4,801	5,130	5,428
Current liabilities	1,790	1,937	1,539	1,649	1,801	1,879
Short-term borrowings	604	690	453	453	453	453
Account payables	1,032	1,138	971	1,081	1,232	1,310
Tax payable	129	94	98	98	98	98
Other current liabilities	26	15	18	18	18	18
Non-current liabilities	659	674	661	661	661	661
Long-term borrowings	575	576	575	575	575	575
Obligations under finance leases	29	46	43	43	43	43
Other non-current liabilities	55	52	43	43	43	43
Total liabilities	2,449	2,611	2,200	2,310	2,462	2,540
Share capital	135	139	142	142	142	142
Other reserves	2,145	2,348	2,295	2,439	2,616	2,836
Total shareholders equity	2,190	2,396	2,347	2,491	2,668	2,888
Minority interest	3	1	2	2	2	2
Total equity and liabilities	4,639	5,007	4,547	4,801	5,130	5,428

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	117	167	248	205	219	272
Depreciation & amortization	241	146	270	345	383	420
Tax paid	(39)	(31)	(78)	(62)	(42)	(52)
Change in working capital	(279)	(93)	161	(182)	140	(320)
Others	74	(104)	0	0	0	0
Net cash from operations	115	85	602	307	700	320
Investing						
Capital expenditure	(335)	(241)	(200)	(800)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(21)	461	0	0	0	0
Net cash from investing	(356)	220	(200)	(800)	(400)	(400)
Financing						
Dividend paid	0	(30)	0	0	0	0
Net borrowings	0	86	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1)	0	0	0	0	0
Others	73	65	0	0	0	0
Net cash from financing	71	120	0	0	0	0
Net change in cash						
Cash at the beginning of the year	892	766	769	914	421	721
Exchange difference	43	0	0	0	0	0
Cash at the end of the year	766	769	914	421	721	641
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(1.3%)	4.1%	0.9%	(0.8%)	11.5%	9.9%
Gross profit	(23.1%)	16.1%	14.1%	8.7%	6.2%	10.1%
Operating profit	(54.7%)	41.6%	74.0%	(14.5%)	4.7%	18.3%
Net profit	(81.8%)	221.3%	24.5%	(15.7%)	23.8%	23.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	13.4%	15.0%	16.9%	18.6%	17.7%	17.7%
Operating margin	2.9%	3.9%	6.8%	5.8%	5.5%	5.9%
Return on equity (ROE)	2.0%	6.0%	7.2%	5.9%	6.9%	7.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	na	na	na	0.0	na	na
Current ratio (x)	1.6	1.6	1.8	1.6	1.6	1.7
Receivable turnover days	73.7	84.0	58.0	82.8	67.0	80.3
Inventory turnover days	92.3	93.9	93.8	95.7	94.6	94.6
Payable turnover days	100.8	108.8	94.2	107.8	109.0	105.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	55.1	13.4	6.6	9.2	7.5	6.0
P/B	1.1	0.8	0.5	0.5	0.5	0.5
Div yield (%)	39.9	164.4	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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