

FIT Hon Teng (6088 HK)

Weak 1H20 in-line; 2H recovery on Belkin/iPhone

FIT's 1H20 profit decline of 78% YoY is in-line with profit warning earlier, driven by production shutdown on COVID-19 in 1Q20 and weaker Belkin impacted by US/EU lockdown in 2Q20. 1H20 flattish revenue was better than expected, while lower GPM of 13.6% is in-line (vs 19.6% in 1H19) due to higher COVID-19 expense and change in optical module biz model. After discussing with mgmt., we remain positive on FIT's 2H recovery driven by 5G iPhone upcycle, 5G mobile antenna/ wireless charging and Belkin's new TWS/speakers. We slightly adjusted our estimates to reflect 1H20 results and higher GPM in FY21-22E. Maintain BUY with new TP HK\$4.10 based on same 15x FY21E P/E (5-yr hist. avg.).

- 1H20 weakness in-line; Strong mobile/PC offset by Belkin weakness.** Despite weaker 1H20 earnings due to COVID-19, flattish revenue is better than our estimate of -7% YoY decline, thanks to 1) stronger mobile (+14% YoY) with iPhone SE and type-C upgrade, 2) better laptop/tablet (+6% YoY) on WFH demand, which offset weakness of Belkin's smart accessories (-30% YoY). As production lines have resumed since 2Q20 and lockdown is gradually lifted in major cities, mgmt. is positive on 2H20 demand recovery and increasing trend of work-from-home for smart home products (routers, smart speaker) and datacenter (optical module).
- Outlook: 5G product launch and Belkin recovery.** Looking ahead, apart from 5G iPhone upcycle in 2H20E, mgmt. expected to accelerate product launches across all segments in 2H20, including 5G handset antenna, backplanes in base stations, Belkin's TWS/speakers and automobile components. In particular, we expect Belkin business will drive earnings recovery and boost profitability in 2H20. We expect revenue/NP to recover with -3%/+4% YoY in 2H20E and 12%/45% YoY in FY21E.
- Expect stronger 2H20 ahead; Maintain BUY with TP of HK\$4.10.** We adjusted FY20/21/22E EPS by 11%/-1%/-3% mainly for 1H20 results and better margin in FY21-22E. Our new TP of HK\$4.1 is based on unchanged 15x FY21E P/E (in-line with 5-year hist. avg.). We estimate 26% EPS FY20-22E CAGR, backed by 9% revenue CAGR. Upcoming catalysts include new products from Belkin and 5G iPhone launch.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (US\$ mn)	4,006	4,372	4,303	4,827	5,145
YoY growth (%)	17.9	9.2	(1.6)	12.2	6.6
Net income (US\$ mn)	234	235	161	235	257
EPS (US\$ cents)	3.50	3.57	2.42	3.52	3.85
YoY growth (%)	18.8	1.9	(32.2)	45.3	9.5
Consensus EPS (US\$ cents)	NA	NA	2.74	3.43	3.83
P/E (x)	13.0	12.8	18.9	13.0	11.9
P/B (x)	1.6	1.4	1.4	1.3	1.2
Yield (%)	2.0	0.0	1.2	1.7	1.9
ROE (%)	12	11.3	7.3	10	10
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$4.10
(Previous TP) HK\$4.16
Up/Downside +16.0%
Current Price HK\$3.55

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	25,749
Avg. 3mths t/o (HK\$mn)	104.16
52W High/Low (HK\$)	4.76/ 1.56
Total Issued Shares (mn)	6,885

Source: Bloomberg

Shareholding Structure

Foxconn Far East Ltd	76.92%
Lu Sung-Ching	6.40%

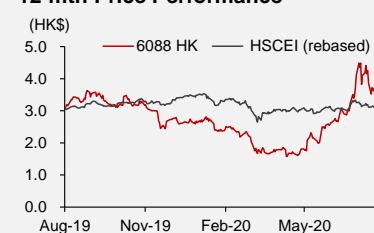
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-12.4%	-7.6%
3-mth	98.3%	95.9%
6-mth	50.8%	60.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pricewaterhouse Coopers

Related Reports:

- FIT (6088 HK, Buy) – Major overhang removed; Lift TP for 2H recovery – 9 Jul 2020
- CMBI Tech Virtual Corporate Day takeaways - 18 Jun 2020
- FIT (6088 HK, Buy) – COVID-19 impact expected in 1H20E; Long-term trend intact - 27 Mar 2020

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Earnings Revision

Figure 1: CMBIS earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	4,303	4,827	5,145	4,354	4,878	5,228	-1%	-1%	-2%
Gross profit	638	759	815	648	748	810	-1%	2%	1%
Operating profit	190	271	295	167	274	303	14%	-1%	-3%
Net profit	161	235	257	144	235	262	12%	0%	-2%
EPS (RMB)	2.42	3.52	3.85	2.18	3.56	3.97	11%	-1%	-3%
Gross margin	14.8%	15.7%	15.8%	14.9%	15.3%	15.5%	-0.1 ppt	0.4 ppt	0.3 ppt
Operating margin	4.4%	5.6%	5.7%	3.8%	5.6%	5.8%	0.6 ppt	0 ppt	-0.1 ppt
Net Margin	3.8%	4.9%	5.0%	3.3%	4.8%	5.0%	0.5 ppt	0 ppt	0 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(US\$ mn)	CMBIS			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	4,303	4,827	5,145	4,281	4,592	4,685	1%	5%	10%
Gross profit	638	759	815	678	750	754	-6%	1%	8%
Operating profit	190	271	295	219	280	302	-13%	-3%	-2%
Net profit	161	235	257	181	231	250	-11%	2%	3%
EPS (RMB)	2.42	3.52	3.85	2.74	3.43	3.83	-12%	3%	0%
Gross margin	14.8%	15.7%	15.8%	15.8%	16.3%	16.1%	-1 ppt	-0.6 ppt	-0.3 ppt
Operating margin	4.4%	5.6%	5.7%	5.1%	6.1%	6.4%	-0.7 ppt	-0.5 ppt	-0.7 ppt
Net Margin	3.8%	4.9%	5.0%	4.2%	5.0%	5.3%	-0.5 ppt	-0.2 ppt	-0.3 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS P&L forecast

US\$ mn	FY18	1H19	2H19	FY19	1H20	2H20E	FY20E	FY21E	FY22E
Revenue	4,006	1,918	2,454	4,372	1,917	2,387	4,303	4,827	5,145
...YoY	17.9%	11.6%	7.3%	9.2%	-0.1%	-2.7%	-1.6%	12.2%	6.6%
Cost of sales	(3,298)	(1,542)	(2,076)	(3,618)	(1,655)	(2,009)	(3,665)	(4,068)	(4,330)
Gross profit	708	376	378	754	261	378	638	759	815
GPM (%)	18%	20%	15%	17%	14%	16%	15%	16%	16%
...YoY	24.3%	27.7%	-8.6%	6.5%	-30.6%	0.0%	-15.3%	18.9%	7.4%
SG&A	(212)	(143)	(126)	(269)	(139)	(124)	(264)	(275)	(293)
...% of rev	-5.3%	-7.4%	-5.2%	-6.2%	-7.3%	-5.2%	-6.1%	-5.7%	-5.7%
R&D	(227)	(121)	(128)	(250)	(115)	(124)	(239)	(261)	(278)
...% of rev	-5.7%	-6.3%	-5.2%	-5.7%	-6.0%	-5.2%	-5.6%	-5.4%	-5.4%
Operating profit	309	122	153	275	32	158	190	271	295
OPM (%)	7.7%	6.4%	6.2%	6.3%	1.7%	6.6%	4.4%	5.6%	5.7%
...YoY	40.4%	-12.9%	-9.1%	-10.8%	-73.8%	3.2%	-31.0%	42.9%	8.8%
Net profit	234	102	134	235	22	139	161	235	257
NPM (%)	5.8%	5.3%	5.4%	5.4%	1.2%	5.8%	3.8%	4.9%	5.0%
...YoY	29.6%	-5.4%	5.7%	0.6%	-78.2%	4.4%	-31.4%	45.3%	9.5%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK4.10

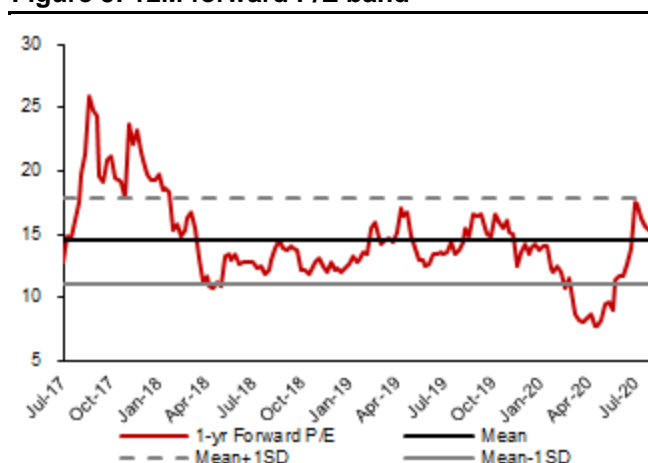
Our new 12m TP of HK\$ 4.10 is based on same 15x FY21E P/E (5-yr hist. avg.) given post-COVID-19 earnings recovery. We estimate 26% EPS FY20-22E CAGR, backed by 9% sales CAGR and improving GPM on better product mix. Upcoming catalysts include new products from Belkin and 5G iPhone launch.

Figure 4: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
TE	TEL US	NR	31,367	95.04	NA	NA	24.3	19.5	3.4	2.9	13.3	15.9
Amphenol	APH US	NR	32,466	108.81	NA	NA	32.8	27.6	6.6	6.1	21.3	22.4
Delphi	DLPH US	NR	1,536	17.79	NA	NA	-	13.7	10.3	6.5	0.3	25.8
Fabrinet	FN US	NR	2,684	73.09	NA	NA	20.0	17.7	2.8	2.4	15.3	15.3
Aviat	6807 JP	NR	1,214	1405.00	NA	NA	12.7	22.8	0.9	0.9	7.5	4.3
Hirose	6806 JP	NR	4,522	12650.00	NA	NA	28.4	32.5	1.5	1.5	5.3	4.7
Luxshare	002475 CH	Buy	53,499	53.20	74.2	39%	40.0	30.1	13.1	10.1	21.6	25.2
Cheng Uei	2392 TT	NR	708	40.70	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	2,574	53.60	NA	NA	11.0	9.8	0.6	0.6	5.8	6.3
Hon Hai	2317 TT	NR	38,304	81.40	NA	NA	11.3	9.1	0.9	0.8	7.6	9.3
Average							22.6	20.3	4.5	3.5	10.9	14.3
FIT Hon Teng	6088 HK	Buy	3,189	3.59	4.10	16%	18.9	13.0	1.4	1.4	7.3	10.0
AAC Tech	2018 HK	Hold	8,903	57.10	45.3	-21%	36.1	26.7	3.2	3.1	11.3	8.5
Sunny Optical	2382 HK	Buy	20,265	143.20	148.0	3%	33.4	24.4	11.2	8.6	31.9	25.9
Tongda	698 HK	Hold	368	0.44	0.5	14%	20.0	6.2	0.4	0.4	6.1	2.2
BYDE	285 HK	Buy	8,532	29.35	*22.2	-24%	36.1	27.1	3.5	3.2	9.4	9.0
Q tech	1478 HK	Buy	1,531	10.12	16.0	58%	14.4	11.3	3.6	3.0	18.9	20.7
TK Group	2283 HK	Buy	227	2.11	2.3	10%	3.8	3.3	1.4	1.4	29.7	35.7
FIH	2038 HK	NR	942	0.89	NA	NA	-	11.5	-	-	-	-
Truly	732 HK	NR	373	0.88	NA	NA	-	-	-	-	-	-
YOFC	6869 HK	NR	2,459	13.92	NA	NA	12.0	9.8	1.0	0.9	8.7	9.7
O-NET	877 HK	NR	670	6.23	NA	NA	23.5	18.3	2.0	1.9	7.1	9.1
Ju Teng	3336 HK	NR	370	2.46	NA	NA	7.8	8.8	0.4	0.4	5.5	4.8
Cowell	1415 HK	NR	320	2.98	NA	NA	6.5	5.4	1.0	0.9	11.2	13.8
Average							19.5	13.8	2.6	2.3	13.7	13.3

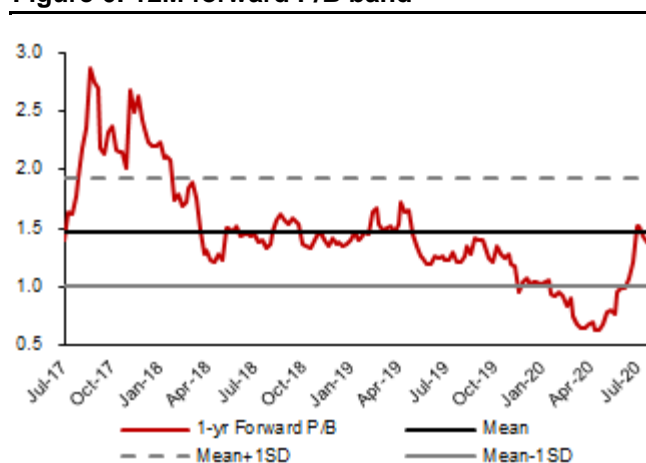
Source: Bloomberg, CMBIS, * TP under review

Figure 5: 12M forward P/E band



Source: Company data, CMBIS

Figure 6: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,006	4,372	4,303	4,827	5,145
COGS	(3,298)	(3,618)	(3,665)	(4,068)	(4,330)
Gross profit	708	754	638	759	815
Selling and marketing	(85)	(111)	(102)	(106)	(113)
Administrative	(126)	(159)	(161)	(169)	(180)
R&D	(227)	(250)	(239)	(261)	(278)
Other gain/(loss)	41	39	54	48	51
Operating profit	309	275	190	271	295
Financial cost	3	(7)	(5)	(2)	(0)
Share associate's profit	(0)	(2)	(5)	(5)	(5)
Pre-tax profit	311	266	179	264	290
Tax	(79)	(33)	(21)	(34)	(38)
Minority interest	(1)	(2)	(3)	(5)	(5)
Net profit	234	235	161	235	257
0					

Cash flow summary

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before taxation	311	266	179	264	290
Depreciation	201	204	221	239	256
Change in working capital	248	(152)	169	(212)	106
Others	(64)	(5)	(18)	(33)	(37)
Net cash from operating	697	313	552	258	614
Capex	(110)	(180)	(180)	(180)	(180)
Other	(837)	(237)	11	12	14
Net cash from investing	(947)	(417)	(169)	(168)	(166)
Net borrowings	694	(496)	607	89	98
Dividend paid	(47)	0	(36)	(52)	(57)
Share issuing					
Other	(72)	432	(14)	(14)	(14)
Net cash from financing	575	(64)	557	24	27
Net change in cash	325	(168)	940	114	475
Cash at beginning of the year	768	1,065	892	1,832	1,946
Exchange difference	(27)	0	0	0	0
Cash at the end of the year	1,065	892	1,832	1,946	2,421

Balance sheet

YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	2,753	2,742	3,646	4,093	4,506
Cash & equivalents	1,065	892	1,832	1,946	2,421
Account receivables	935	930	906	1,154	1,041
Inventories	650	703	692	776	827
Short-term bank deposits	6	118	118	118	118
Non-current assets	1,557	1,665	1,624	1,565	1,490
PPE	599	566	525	466	391
Intangibles	791	745	745	745	745
Interests in associates	6	22	22	22	22
Deferred income tax	109	115	115	115	115
Other non-current assets	52	218	218	218	218
Total assets	4,310	4,407	5,270	5,658	5,995
Current liabilities	2,269	1,662	2,402	2,612	2,754
ST borrowings	989	494	1,100	1,189	1,287
Account payables	1,191	1,086	1,220	1,340	1,385
Tax payable	83	63	63	63	63
Other current liabilities	6.025	19.563	19.563	19.563	19.563
Non-current liabilities	93	668	668	668	668
Other payables	18	10	10	10	10
Deferred tax liability	75	61	61	61	61
Total liabilities	2,362	2,330	3,070	3,279	3,421
Share capital	132	134	134	134	134
Reserves	1,875	2,025	2,151	2,334	2,535
Non-controlling interests	13	11	7	3	(2)
Shareholders' equity	1,947	2,077	2,200	2,379	2,574
Total equity and liabilities	4,310	4,407	5,270	5,658	5,995

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Consumer electronics	23	18	20	18	17
Mobile devices	43	40	39	40	38
Comm. infrastructure	23	20	19	19	20
Auto, industrial and medical	2	3	3	4	5
Connected home	1	6	7	7	7
Smart accessories	8	13	12	12	13
Growth (%)					
Revenue	17.9	9.2	(1.6)	12.2	6.6
Gross profit	24.3	6.5	(15.3)	18.9	7.4
Operating profit	40.4	(10.8)	(31.0)	42.9	8.8
Net profit	29.6	0.6	(31.4)	45.3	9.5
Profit & loss ratio (%)					
Gross margin	17.7	17.2	14.8	15.7	15.8
Operating margin	7.7	6.3	4.4	5.6	5.7
Net profit margin	5.8	5.4	3.8	4.9	5.0
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.2	1.6	1.5	1.6	1.6
Receivable turnover days	85	78	77	87	74
Inventory turnover days	72	71	69	70	70
Payable turnover days	132	110	122	120	117
Profitability (%)					
ROE	12.0	11.3	7.3	9.9	10.0
ROA	5.4	5.3	3.1	4.1	4.3
Per share data (US\$ cents)					
EPS	3.50	3.57	2.42	3.52	3.85
DPS	0.90	0.00	0.53	0.77	0.85

Source: Company data, CMBIS estimates

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