

FIT Hon Teng (6088 HK)

FY23 in line; upbeat FY24E outlook on AI server/networking, EV and AirPods upside

FIT Hon Teng delivered in-line FY23 results and upbeat FY24E guidance. It posted FY23 revenue of US\$4,196mn (-7% YoY) and net profit of US\$130mn (-24% YoY), largely in-line with guidance, mainly due to softer demand for traditional servers/PCs and optimization in networking segment. Gross margin recovered to 19.2% thanks to a better product mix and strong execution of the "3+3 Strategy". For FY24E, mgmt. guided double-digit YoY growth for revenue and gross profit, backed by multiple new product ramp-up (DDR5/CPU sockets/high-speed connectors/TWS) and integration of Voltaira auto electronics business. We expect FIT's revenue/net profit to rebound 12.2%/41.6% YoY in FY24E. We lift our FY24-25E EPS by 4-9% to factor in the strong business outlook and better margin recovery. Reiterate BUY with new TP of HK\$2.21 based on the same 11x FY24E P/E.

- **FY23 earnings mostly in line.** FIT released FY23 results with revenue of US\$4,196mn (-7% YoY) and net profit of US\$130mn (-24% YoY). The revenue growth was mainly driven by EV segment (+100% YoY) due to Voltaira merger, but was offset by a decline in networking segment (-44% YoY) for product portfolio optimization and traditional server weakness. GPM came in at 19.2% (vs. 16.9% in FY22) thanks to an improving product mix and strong execution of the "3+3 Strategy". An opex ratio of 14.4% was slightly higher than its original target of 14.0%.
- **Strong FY24E outlook: Voltaira synergy, AI servers/networking (CPU sockets/DDR5 connectors/high-speed connectivity) and AirPods ramp-up.** Mgmt. guided double-digit growth for topline and gross profit, driven by sales synergy from Voltaira auto business and multiple new product launches into FY24E. Mgmt also expected US key customer's TWS orders to be delivered in 3Q24E in Vietnam and India factories. Overall, we expect FIT's revenue/net profit to rebound 12.2%/41.6% YoY in FY24E.
- **Solid growth with margin recovery in FY24E; positive on multiple growth drivers.** FIT's share price reacted positively to the strong guidance after earnings. Trading at 6.6x/5.2x FY24E/25E P/E, its valuation remains attractive in our view, given higher earnings visibility and solid growth drivers. We maintain BUY with new TP of HK\$2.21, based on the same 11x FY24E P/E. Near-term catalysts include progress of TWS shipments and AI server product updates.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue (US\$ mn)	4,490	4,531	4,196	4,706	5,386
YoY growth (%)	4.1	0.9	(7.4)	12.2	14.4
Net profit (US\$ mn)	136.8	170.3	129.6	183.4	235.4
YoY growth (%)	221.3	24.5	(23.9)	41.5	28.3
EPS (Reported) (US\$ cents)	2.04	2.42	1.82	2.58	3.31
Consensus EPS (US\$)	N/A	N/A	N/A	2.20	3.20
P/E (x)	13.4	6.6	9.4	6.6	5.2
P/B (x)	0.8	0.5	0.5	0.5	0.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	6.0	7.2	5.4	7.3	8.6
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.21
(Previous TP)	HK\$2.02)
Up/Downside	64.7%
Current Price	HK\$1.34

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Stock Data

Mkt Cap (HK\$ mn)	9,737.8
Avg 3 mths t/o (HK\$ mn)	4.0
52w High/Low (HK\$)	2.16/0.90
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

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

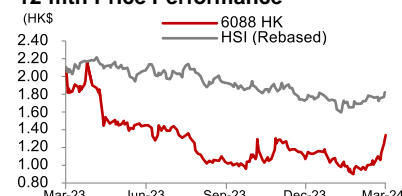
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	38.1%	27.3%
3-mth	27.6%	21.2%
6-mth	30.1%	37.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1. FIT Hon Teng (6088 HK) -FY23E preview: earnings recovery on track, multiple growth drivers in FY24/25E ([link](#))
2. FIT Hon Teng (6088 HK)-3Q23 earnings beat on better product mix and record-high GPM ([link](#))
3. FIT Hon Teng (6088 HK)-Weak 1H23 in-line; Positive outlook in 2H23E ([link](#))
4. FIT Hon Teng (6088 HK)-NDR takeaways: Multiple growth drivers and margin recovery in FY24/25E; Maintain BUY ([link](#))

FY23 results review

Figure 1: FY23 results review

(US\$ 000)	1Q23	2Q23	3Q23	4Q23	FY23
Revenue					
Smartphones	230,000	215,883	305,000	293,452	1,044,335
...YoY	-20%	-34%	-24%	19%	-17%
Networking	105,000	113,936	97,000	108,857	424,793
...YoY	-44%	-34%	-57%	-35%	-44%
Computing	170,000	207,342	211,000	184,943	773,285
...YoY	-19%	3%	1%	-7%	-6%
EV Mobility	38,000	33,644	133,000	100,454	305,098
...YoY	-12%	16%	241%	140%	100%
Systems products	273,000	305,893	376,000	460,387	1,415,280
...YoY	0%	9%	7%	6%	6%
Others	46,000	45,382	43,000	98,377	232,759
...YoY	-10%	18%	-16%	47%	12%
Total	862,000	922,080	1,165,000	1,246,470	4,195,550
...YoY	-18%	-12%	-9%	8%	-7%
Net profit	(9,297)	345	54,906	74,063	128,969
NPM (%)	-1.1%	0.0%	4.7%	5.9%	3%
...YoY	-130%	-99%	10%	116%	-24%

Source: Company data, CMBIGM

Figure 2: Revenue breakdown by business segment

(US\$ 000)	FY22	1H23	2H23	FY23	FY24E	FY25E
Computing	819,708	377,342	395,943	773,285	827,415	934,979
...YoY	2%	-8%	-3%	-6%	7%	13%
Smartphones	1,261,047	445,883	598,452	1,044,335	960,788	1,008,828
...YoY	-3%	-27%	-8%	-17%	-8%	5%
Networking	753,854	218,936	205,857	424,793	501,256	601,507
...YoY	-14%	-40%	-47%	-44%	18%	20%
EV Mobility	152,814	71,644	233,454	305,098	558,341	694,232
...YoY	10%	-1%	189%	100%	83%	24%
EV business	152,814	71,644	65,909	137,553	158,186	181,914
Prettl SWH	-	-	167,545	167,545	400,155	512,318
System products	1,335,580	578,893	836,387	1,415,280	1,579,127	1,853,283
...YoY	20%	5%	7%	6%	12%	17%
Key audio products	-	-	-	-	50,625	202,500
Others	207,600	91,382	141,377	232,759	279,311	293,276
...YoY	-17%	2%	20%	12%	20%	5%
Total	4,530,603	1,784,080	2,411,470	4,195,550	4,706,238	5,386,104
...YoY	0.9%	-15.1%	-0.7%	-7.4%	12.2%	14.4%

Source: Company data, CMBIGM estimates

Figure 3: P&L forecast

(US\$ mn)	FY22	1H23	2H23	FY23	FY24E	FY25E
Revenue	4,531	1,784	2,411	4,196	4,706	5,386
...YoY	0.9%	-15.1%	-0.7%	-7.4%	12.2%	14.4%
Cost of sales	-3,763	-1,501	-1,887	-3,388	-3,775	-4,289
Gross profit	768	283	524	807	931	1,097
GPM (%)	17%	16%	22%	19%	20%	20%
...YoY	14.1%	-19.3%	25.7%	5.1%	15.4%	17.8%
SG&A	-223	-117	-178	-295	-325	-372
...% of rev	-4.9%	-6.6%	-7.4%	-7.0%	-6.9%	-6.9%
R&D	-296	-139	-168	-308	-341	-390
...% of rev	-6.5%	-7.8%	-7.0%	-7.3%	-7.3%	-7.3%
Operating profit	307	47	217	263	328	394
OPM (%)	6.8%	2.6%	9.0%	6.3%	7.0%	7.3%
...YoY	74.0%	-60.7%	16.0%	-14.5%	24.7%	20.1%
Net profit	170	-9	138	129	183	234
NPM (%)	3.7%	-0.5%	5.7%	3.1%	3.9%	4.4%
...YoY	23.2%	-110.5%	67.7%	-24.0%	41.6%	28.3%

Source: Company data, CMBIGM estimates

Earnings revision

Figure 4: CMBIGM earnings revision

(US\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,706	5,386	6,201	4,578	5,137	N/A	3%	5%	N/A
Gross profit	931	1,097	1,309	840	954	N/A	11%	15%	N/A
Operating profit	328	394	494	259	328	N/A	27%	20%	N/A
Net profit	183	234	312	165	223	N/A	11%	5%	N/A
EPS (USD cents)	2.58	3.31	4.41	2.36	3.18	N/A	9%	4%	N/A
Gross margin	19.8%	20.4%	21.1%	18.3%	18.6%	N/A	1.4 ppt	1.8 ppt	N/A
Operating margin	7.0%	7.3%	8.0%	5.6%	6.4%	N/A	1.3 ppt	0.9 ppt	N/A
Net margin	3.9%	4.4%	5.0%	3.6%	4.3%	N/A	0.3 ppt	0 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

(US\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,706	5,386	6,201	4,424	4,984	4,949	6%	8%	25%
Gross profit	931	1,097	1,309	808	942	989	15%	16%	32%
Operating profit	328	394	494	254	328	-	29%	20%	-
Net profit	183	234	312	165	209	207	11%	12%	51%
EPS (USD cents)	2.58	3.31	4.41	2.20	3.20	-	17%	3%	-
Gross margin	19.8%	20.4%	21.1%	18.3%	18.9%	20.0%	1.5 ppt	1.5 ppt	1.1 ppt
Operating margin	7.0%	7.3%	8.0%	5.7%	6.6%	-	1.2 ppt	0.7 ppt	-
Net margin	3.9%	4.4%	5.0%	3.7%	4.2%	4.2%	0.2 ppt	0.2 ppt	0.9 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.21

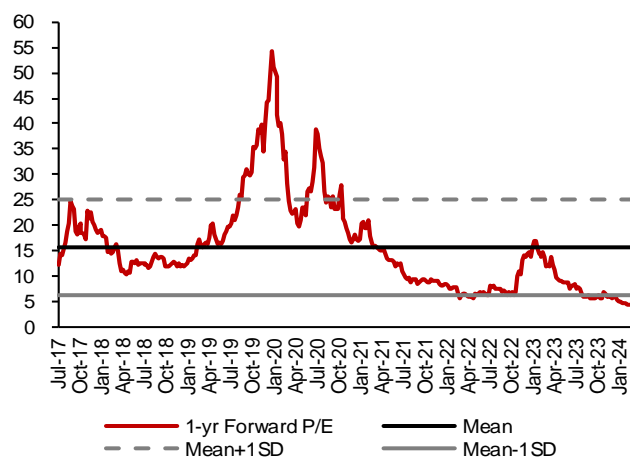
Our new 12m TP of HK\$ 2.21 is based on the same 11x FY24E P/E (a 30% discount to 5-year hist. avg.), given accelerated growth on the “3+3 Strategy” and profitability recovery. Trading at 6.6x/5.2x FY24/25E P/E, the stock’s risk-reward is attractive, in our view. Upcoming catalysts include continued revenue upside from auto business consolidation, AirPods share gains, expanding connectivity product applications in AI servers and improving margins.

Figure 6: 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	43,599	141.19	NA	NA	21.0	18.6	3.9	3.2	19.1	18.5
Amphenol	APH US	NR	66,056	110.12	NA	NA	37.2	33.4	8.2	6.9	24.4	22.8
Fabrinet	FN US	NR	7,225	198.98	NA	NA	26.1	23.8	4.9	4.2	20.6	18.2
Aviat	6807 JP	NR	1,583	2535.00	NA	NA	14.9	18.8	1.4	1.2	9.4	6.9
Hirose	6806 JP	NR	3,638	14830.00	NA	NA	14.6	18.7	1.5	1.4	10.1	7.7
Luxshare	002475 CH	BUY	28,141	28.25	47.0	66%	18.2	14.4	2.0	1.8	10.9	12.3
Foxconn	2354 TT	NR	2,647	58.90	NA	NA	13.6	10.9	0.5	0.5	5.8	7.0
Hon Hai	2317 TT	NR	53,082	120.50	NA	NA	12.7	11.2	1.1	1.0	8.8	9.3
Average							18.8	17.7	2.7	2.3	13.0	12.4
China technology												
FIT Hon Teng	6088 HK	BUY	1,249	1.34	2.21	65%	9.4	6.6	0.5	0.5	5.4	7.3
AAC Tech	2018 HK	HOLD	3,539	23.10	14.0	-39%	40.6	23.3	1.1	1.1	2.7	4.6
Sunny Optical	2382 HK	HOLD	7,648	54.55	50.7	-7%	46.6	25.8	2.3	2.2	5.0	8.6
Tongda	698 HK	BUY	97	0.08	0.2	118%	4.3	2.7	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	9,145	31.75	45.9	44%	16.3	11.9	2.2	1.9	13.4	15.7
Q tech	1478 HK	BUY	510	3.37	3.6	7%	12.1	6.3	0.7	0.6	5.9	10.3
TK Group	2283 HK	BUY	140	1.31	3.1	136%	4.7	3.4	0.6	0.6	13.3	16.3
YOFC	6869 HK	NR	2,016	9.28	NA	NA	5.2	5.5	0.6	0.5	11.0	10.9
Cowell	1415 HK	NR	1,843	16.90	NA	NA	28.8	16.6	4.3	3.5	14.9	22.3
Average							18.7	11.4	1.4	1.2	8.2	11.0

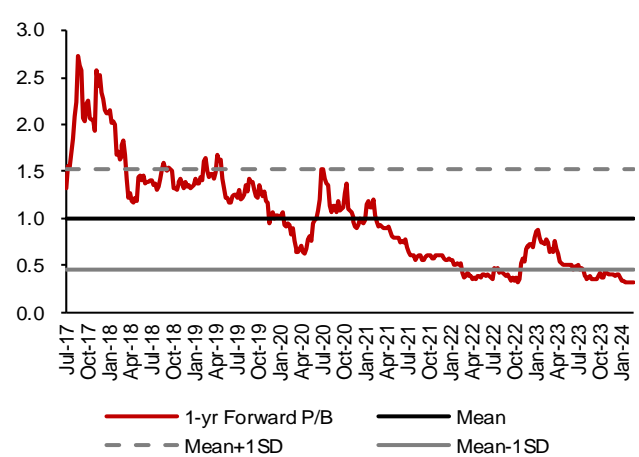
Source: Bloomberg, CMBIGM. *TP under review.

Figure 7: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	4,315	4,490	4,531	4,196	4,706	5,386
Cost of goods sold	(3,735)	(3,817)	(3,763)	(3,388)	(3,775)	(4,289)
Gross profit	580	673	768	807	931	1,097
Selling expense	(97)	(105)	(93)	(105)	(118)	(135)
Admin expense	(134)	(161)	(130)	(191)	(207)	(237)
R&D expense	(235)	(301)	(296)	(308)	(341)	(390)
Others	11	70	58	61	62	59
Operating profit	125	177	307	263	328	394
Share of (losses)/profits of associates/JV	(9)	(8)	(46)	(50)	(50)	(50)
Interest expense	1	(2)	(14)	(33)	(33)	(30)
Pre-tax profit	117	167	248	179	245	314
Income tax	(74)	(31)	(78)	(50)	(61)	(78)
Minority interest	0	(1)	1	1	1	1
Net profit	43	137	170	130	183	235

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	2,848	3,034	2,764	3,112	2,892	3,400
Cash & equivalents	766	769	914	1,316	900	1,129
Account receivables	872	1,033	720	807	906	1,055
Inventories	944	982	967	802	899	1,029
ST bank deposits	126	98	66	4	4	4
Non-current assets	1,791	1,973	1,783	1,982	2,498	2,426
PP&E	728	823	753	900	1,416	1,344
Deferred income tax	135	133	131	126	126	126
Investment in JVs & assos	24	172	123	73	73	73
Intangibles	709	634	601	700	700	700
Other non-current assets	195	211	175	182	182	182
Total assets	4,639	5,007	4,547	5,094	5,389	5,826
Current liabilities	1,790	1,937	1,539	2,563	2,676	2,877
Short-term borrowings	604	690	453	1,383	1,383	1,383
Account payables	1,032	1,138	971	1,095	1,207	1,408
Tax payable	129	94	98	70	70	70
Other current liabilities	26	15	18	17	17	17
Non-current liabilities	659	674	661	93	93	93
Long-term borrowings	575	576	575	0	0	0
Obligations under finance leases	29	46	43	41	41	41
Other non-current liabilities	55	52	43	52	52	52
Total liabilities	2,449	2,611	2,200	2,656	2,768	2,970
Share capital	135	139	142	142	142	142
Other reserves	2,145	2,348	2,295	2,384	2,568	2,803
Total shareholders equity	2,190	2,396	2,347	2,437	2,621	2,856
Minority interest	3	1	2	3	3	3
Total equity and liabilities	4,639	5,007	4,547	5,094	5,389	5,826

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	117	167	248	179	245	314
Depreciation & amortization	241	251	232	345	434	472
Tax paid	(39)	(91)	(79)	(50)	(61)	(78)
Change in working capital	(279)	(257)	93	201	(84)	(77)
Others	74	15	62	0	0	0
Net cash from operations	115	85	556	676	533	630
Investing						
Capital expenditure	(335)	(216)	(113)	(800)	(950)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(21)	(4)	47	0	0	0
Net cash from investing	(356)	(220)	(66)	(800)	(950)	(400)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1)	(1)	(2)	0	0	0
Others	73	121	(268)	0	0	0
Net cash from financing	71	120	(270)	0	0	0
Net change in cash						
Cash at the beginning of the year	892	766	769	914	1,316	900
Exchange difference	43	19	(75)	0	0	0
Cash at the end of the year	766	769	914	1,316	900	1,129
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(1.3%)	4.1%	0.9%	(7.4%)	12.2%	14.4%
Gross profit	(23.1%)	16.1%	14.1%	5.1%	15.4%	17.8%
Operating profit	(54.7%)	41.6%	74.0%	(14.5%)	24.7%	20.1%
Net profit	(81.8%)	221.3%	24.5%	(23.9%)	41.5%	28.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	13.4%	15.0%	16.9%	19.2%	19.8%	20.4%
Operating margin	2.9%	3.9%	6.8%	6.3%	7.0%	7.3%
Return on equity (ROE)	2.0%	6.0%	7.2%	5.4%	7.3%	8.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	na	na	na	0.0	0.0	0.0
Current ratio (x)	1.6	1.6	1.8	1.2	1.1	1.2
Receivable turnover days	73.7	84.0	58.0	70.2	70.3	71.5
Inventory turnover days	92.3	93.9	93.8	86.4	87.0	87.6
Payable turnover days	100.8	108.8	94.2	117.9	116.7	119.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	55.1	13.4	6.6	9.4	6.6	5.2
P/B	1.1	0.8	0.5	0.5	0.5	0.4
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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BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
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NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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