

FIT Hon Teng (6088 HK)

Kantatsu deal positive for vehicle biz; Reiterate Buy

FIT announced to acquire 26.83% of Kantatsu through preferred shares for JPY5,905mn (USD54.4mn), implying 18.8x FY19E P/E or 1.9x P/B. Kantatsu is global No. 3/ No. 4 handset/vehicle lens supplier, which is poised to benefit from secular trend of automobile ADAS and handset multi-cam/3D sensing, in our view. We are positive on the deal, and expect it to accelerate FIT's expansion into ADAS market leveraging its auto camera JV with Sharp in 2018. Reiterate BUY.

- Accelerate expansion into auto market; Significant synergies in vehicle camera/ADAS.** Automobile market has been FIT's strategic M&A focus since IPO in 2017, targeting infotainment (display) and ADAS (camera/ lidar/radar) segments. Kantatsu is global No.4 auto lens supplier (8% mkt share) behind Sunny (30%), Hitachi Maxwell (9-10%) and Fujifilm (9-10%). We believe this deal will accelerate 1) FIT's vertical integration with key components (i.e. vehicle lens) in auto camera module, and 2) further integration/synergies with Sharp and other auto biz under Hon Hai Group, 3) boost Kantatsu auto lens shipment and profitability in the long term with FIT's partnership. We expect FIT's auto biz to deliver 50% revenue CAGR in next three years as part of its strategic focus ahead.
- Fair valuation; Limited NT earnings impact.** Compared to Sunny's 34.3x and Largan's 19.9x FY19E P/E, we think the deal valuation of 18.8x FY19E P/E is fair, assuming that FY19 NP is two times of 1H19 NP (JPY584mn). We expect NT earnings impact is minimal (1-2% of NP). After deal completion on 8 Nov 2019, FIT will become 2nd largest shareholder with 28.4% stake (vs 1.5% before), while Sharp's stake will be reduced to 49.9% from 76.8%.
- Kantatsu's handset lens is fast-growing.** Apart from vehicle lens, Kantatsu is global No.3 handset lens vendor supplying high-end (13MP+) lens mainly for Apple and Huawei, which is one of the fastest growing segments backed by rising multi-cam/3D sensing adoption. We estimate Kantatsu handset lens capacity is 30-40kk/m, compared to Sunny's 150kk/m and Largan's 200kk/m. After Sharp's being acquired by Honhai in 2018, Kantatsu have built two plants in China, and mid-term target is to ramp existing capacity by 2-3 times.
- Positioning for next growth phase; Reiterate BUY with TP HK\$3.77.** We believe FIT is on track to realize its long-term strategy of stepping into the automobile ADAS space. We estimate 2H19 sales /NP growth of 9%/23% YoY. Trading at 9.2x FY20E P/E, the stock is attractive with 14% FY19-21E EPS CAGR. Our TP of HK\$ 3.77 is based on 11x FY20E P/E.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (US\$ mn)	3,399	4,006	4,408	4,900	5,464
YoY growth (%)	18.0	17.9	10.0	11.2	11.5
Net income (US\$ mn)	180	234	258	294	332
EPS (US\$ cents)	3.0	3.5	3.9	4.4	5.0
YoY growth (%)	(2.1)	18.8	10.1	14.1	13.0
P/E (x)	13.8	11.6	10.6	9.3	8.2
P/B (x)	1.3	1.4	1.3	1.1	1.0
Yield (%)	1.6	2.2	2.1	2.4	2.7
ROE (%)	10	12	12	12	13
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimate

BUY (Maintain)

Target Price	HK\$3.77
Up/Downside	+19.0%
Current Price	HK\$3.17

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	22,989
Avg. 3mths t/o (HK\$mn)	14.32
52W High/Low (HK\$)	5.05/ 2.97
Total Issued Shares (mn)	6,743.4

Source: Bloomberg

Shareholding Structure

Foxconn Far East Ltd	76.48%
Franklin Resources Inc	2.03%
Lu Sung-Ching	1.41%

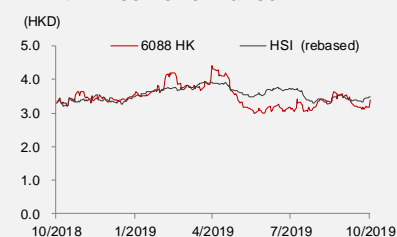
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.4%	-3.2%
3-mth	9.0%	16.2%
6-mth	-21.7%	-12.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

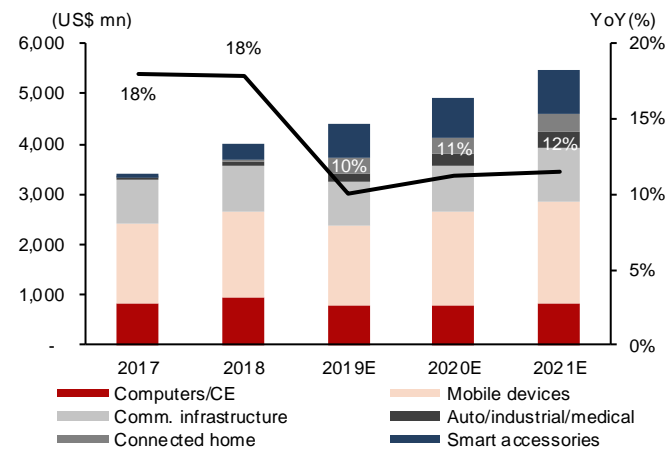
Auditor: Pricewaterhouse Coopers

Related Reports:

- FIT (6088 HK, Buy) – NDR takeaways: Focus on Belkin/400G in 2020 – 16 Aug 2019
- FIT (6088 HK, Buy) – Belkin/Vietnam synergy on track; Limited trade war impact – 14 Aug 2019
- FIT (6088 HK, Buy) – 1H19 preview – 12 Aug 2019

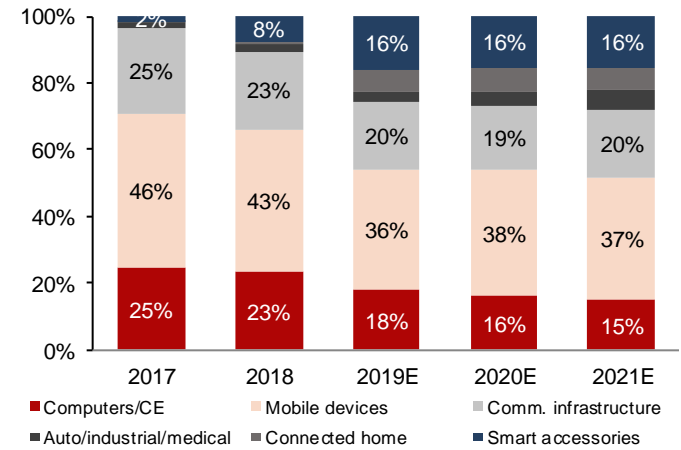
Focus Charts

Figure 1: FIT revenue trend forecast



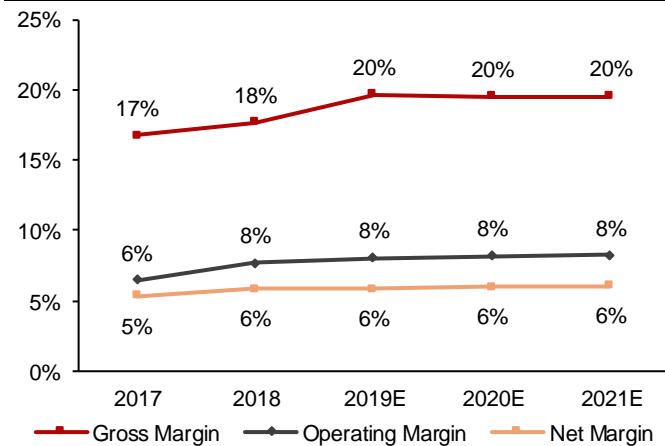
Source: Company data, CMBIS estimates

Figure 2: FIT revenue mix forecast



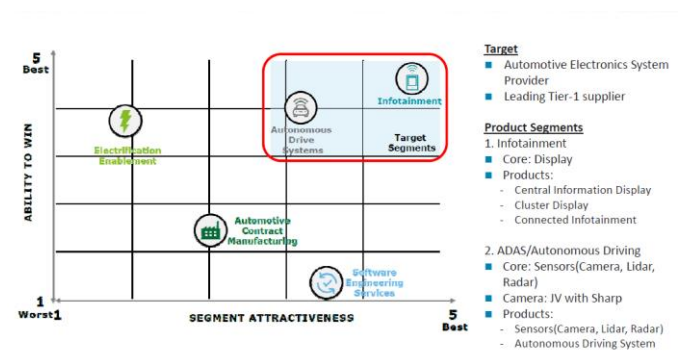
Source: Company data, CMBIS estimates

Figure 3: FIT margin trend forecast



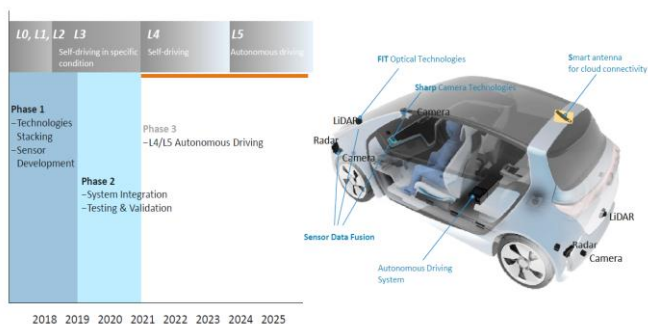
Source: Company data, CMBIS estimates

Figure 4: FIT's automobile growth strategy



Source: Company data, CMBIS

Figure 5: ADAS & autonomous driving



Source: Company data, CMBIS

Figure 6: In-vehicle display and infotainment



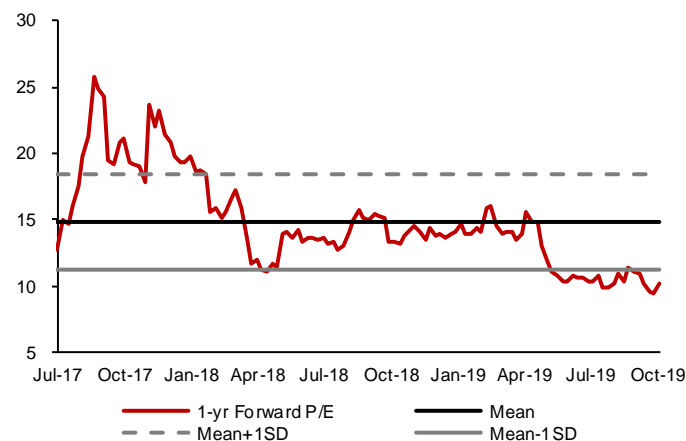
Source: Company data, CMBIS

Figure 7: Peers' valuation

Company	Ticker	Rating	Market US\$(mn)	Price (LC)	TP (LC)	Up/-side	P/E (x)		P/B (x)		ROE (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Global connectors												
TE	TEL US	NR	31,242	93.00	NA	NA	16.9	16.3	3.0	2.8	17.4	17.4
Amphenol	APH US	NR	29,340	98.64	NA	NA	27.5	24.8	7.4	6.4	26.4	26.2
Delphi	DLPH US	NR	1,250	14.35	NA	NA	5.4	4.9	2.8	2.0	56.1	45.8
Finisar	FNSR US	NR	2,855	23.77	NA	NA	25.3	22.5	1.7	1.7	7.1	-
Fabrinet	FN US	NR	1,924	52.21	NA	NA	13.9	14.0	2.4	-	17.4	16.3
Aviat	6807 JP	NR	1,461	1698.00	NA	NA	12.3	13.8	1.2	1.1	10.4	8.5
Hirose	6806 JP	NR	4,797	13560.00	NA	NA	26.6	28.6	1.6	1.6	6.1	5.7
Luxshare	002475 CH	NR	21,773	29.40	32.1	9%	31.6	23.0	6.0	4.8	18.9	20.8
Cheng Uei	2392 TT	NR	730	43.35	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	3,010	65.20	NA	NA	11.3	10.6	0.8	0.7	8.0	7.9
Hon Hai	2317 TT	NR	34,844	77.20	NA	NA	9.5	9.3	0.8	0.8	8.8	8.9
Average							18.0	16.8	2.8	2.4	17.7	17.5
HK-listed components												
FIT Hon Teng	6088 HK	Buy	2,922	3.17	3.77	19%	10.6	9.3	1.3	1.1	12.1	12.2
AAC Tech	2018 HK	Sell	7,057	46.05	29.6	-36%	25.5	19.4	2.5	2.3	9.9	12.0
Sunny Optical	2382 HK	Buy	16,488	117.30	140.0	19%	33.5	23.1	9.7	7.5	28.9	32.4
Tongda	698 HK	Buy	496	0.61	0.9	49%	4.7	4.0	0.6	0.5	11.7	12.8
BYDE	285 HK	Hold	3,246	11.18	10.4	-7%	15.4	10.8	1.3	1.2	8.6	11.2
Q tech	1478 HK	Buy	1,495	9.91	9.5	-4%	24.4	18.8	4.0	3.4	16.4	18.0
TK Group	2283 HK	Buy	375	3.53	4.1	16%	7.6	6.4	2.3	2.3	29.7	35.7
FIH	2038 HK	NR	1,037	1.02	NA	NA	-	11.5	-	-	-	-
Truly	732 HK	NR	424	1.03	NA	NA	4.3	4.4	0.4	0.4	5.1	8.3
SMIC	981 HK	NR	6,282	9.74	NA	NA	82.9	73.1	1.1	1.0	1.4	1.8
YOFC	6869 HK	NR	2,450	12.56	NA	NA	11.0	8.4	1.0	0.9	9.0	9.4
O-NET	877 HK	NR	423	4.03	NA	NA	13.2	11.3	1.3	1.2	9.4	10.9
Ju Teng	3336 HK	NR	268	1.77	NA	NA	13.2	8.3	0.4	0.3	2.5	4.1
Cowell	1415 HK	NR	135	1.28	NA	NA	12.5	6.7	0.4	0.4	5.1	5.2
Average							19.9	15.4	2.0	1.7	11.5	13.4

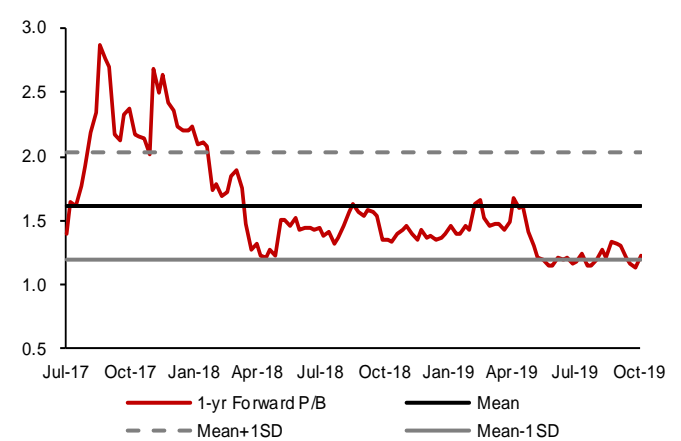
Source: Bloomberg, CMBIS

Figure 8: 12M forward P/E band



Source: Company data, CMBIS

Figure 9: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	3,399	4,006	4,408	4,900	5,464
COGS	(2,829)	(3,298)	(3,541)	(3,944)	(4,395)
Gross profit	569	708	867	956	1,068
Selling and marketing	(83)	(85)	(123)	(137)	(153)
Administrative	(81)	(126)	(163)	(171)	(191)
R&D	(190)	(227)	(260)	(284)	(317)
Other gain/(loss)	4	41	35	39	44
Operating profit	220	309	356	402	451
Financial cost	5	3	(12)	(10)	(8)
Share associate's profit	(0)	(0)	(0)	(0)	(0)
Pre-tax profit	225	311	343	392	443
Tax	(44)	(79)	(86)	(98)	(111)
Minority interest	(0)	(1)	0	0	0
Net profit	180	234	258	294	332

Cash flow summary

YE 31 Dec (US\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before taxation	225	311	343	392	443
Depreciation	184	201	204	221	239
Change in working capital	(223)	248	(415)	293	(445)
Others	(29)	(64)	(74)	(88)	(102)
Net cash from operating	156	697	59	818	134
Capex	(111)	(110)	(180)	(180)	(180)
Other	59	(837)	18	20	22
Net cash from investing	(52)	(947)	(162)	(160)	(158)
Net borrowings	(119)	694	85	115	129
Dividend paid	(41)	(47)	(57)	(65)	(73)
Share issuing	375	(72)	(30)	(30)	(30)
Other	215	575	(2)	20	26
Net cash from financing	215	575	(2)	20	26
Net change in cash	319	325	(105)	678	2
Cash at beginning of the year	415	768	1,065	960	1,638
Exchange difference	34	(27)			
Cash at the end of the year	768	1,065	960	1,638	1,640

Balance sheet

YE 31 Dec (US\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	2,412	2,753	2,964	3,708	4,087
Cash & equivalents	768	1,065	960	1,638	1,640
Account receivables	993	935	1,187	1,172	1,458
Inventories	528	650	715	795	886
Short-term bank deposits	49	6	6	6	6
Non-current assets	769	1,557	1,533	1,492	1,433
PPE	676	599	575	534	476
Intangibles	14	791	791	791	791
Interests in associates	7	6	6	6	6
Deferred income tax	28	109	109	109	109
Other non-current assets	44	52	52	52	52
Total assets	3,181	4,310	4,497	5,199	5,520
Current liabilities	1,277	2,269	2,256	2,728	2,791
ST borrowings	296	989	1,074	1,189	1,318
Account payables	936	1,191	1,093	1,451	1,384
Tax payable	45	83	83	83	83
Other current liabilities	0	6.025	6.025	6.025	6.025
Non-current liabilities	10	93	93	93	93
Other payables	9	18	18	18	18
Deferred tax liability	1	75	75	75	75
Total liabilities	1,287	2,362	2,349	2,822	2,884
Share capital	132	132	132	132	132
Reserves	1,762	1,875	2,076	2,305	2,564
Non-controlling interests	0	13	13	13	13
Shareholders' equity	1,894	1,947	2,148	2,377	2,636
Total equity and liabilities	3,181	4,310	4,497	5,199	5,520

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Consumer electronics	25	23	18	16	15
Mobile devices	46	43	36	38	37
Comm. infrastructure	25	23	20	19	20
Auto, industrial and medical	2	2	3	4	6
Connected home	0	1	7	7	7
Smart accessories	2	8	16	16	16
Growth (%)					
Revenue	18.0	17.9	10.0	11.2	11.5
Gross profit	16.1	24.3	22.4	10.3	11.8
Operating profit	4.7	40.4	15.3	13.1	12.1
Net profit	7.1	29.6	10.1	14.1	13.0
Profit & loss ratio (%)					
Gross margin	16.8	17.7	19.7	19.5	19.6
Operating margin	6.5	7.7	8.1	8.2	8.3
Net profit margin	5.3	5.8	5.8	6.0	6.1
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.9	1.2	1.3	1.4	1.5
Receivable turnover days	107	85	98	87	97
Inventory turnover days	68	72	74	74	74
Payable turnover days	121	132	113	134	115
Profitability (%)					
ROE	9.5	12.0	12.0	12.4	12.6
ROA	5.7	5.4	5.7	5.7	6.0
Per share data (US\$ cents)					
EPS	2.95	3.50	3.86	4.40	4.97
DPS	0.66	0.90	0.85	0.97	1.09

Source: Company data, CMBIS estimates

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