

FIT Hon Teng (6088 HK)

Major overhang removed; Lift TP for 2H recovery

FIT's 1H20 profit warning is largely expected in our view, which stated 1H20 net profit to decline to US\$20mn (vs US\$101mn in 1H19), due to 1) 1Q20 NP decline of 98% YoY on production shutdown as announced earlier, and 2) weak consumer demand given major cities lockdown in 2Q20. We lowered FY20-22E EPS by 6-36% to reflect 1H20 profit warning and project delays. In longer term, we believe Belkin's improving operating leverage and iPhone shipment recovery will drive earnings in FY21/22E. We now estimate FIT's revenue/NP recovery to 5%/6% YoY in 2H20E. We believe major overhang on 1H earnings is removed, and we lifted TP to HK\$4.16 based on rollover 15.0x FY21E P/E (5-yr hist. avg.).

- 1H20 profit warning as expected due to COVID-19.** We think FIT's 1H20 profit warning is largely anticipated given 1Q20 NP decline of 98% YoY and previous guidance on higher expense and global demand weakness in 2Q20E. As production resumption has been on track since late-March, we estimate 2Q20E revenue decline narrowed to -5% YoY (vs -10% YoY in 1Q20), mainly dragged by weak consumer electronic (mobile, smart accessories, Belkin) due to US/EU lockdown. We estimate 2Q20E NP decline of 66% YoY, compared to -98% YoY in 1Q20. Looking ahead, apart from 5G iPhone upcycle in 2H20E, we expect increasing trend of work-from-home will boost demand for smart home products (routers, smart speaker) and datacenter (optical module) in 2H20E.
- Vietnam production base to offset trade war impact.** FIT has moved part of manufacturing capacity from China to Vietnam for iPhone/Belkin in 2019, which will ease pressure from rising labor cost, and mitigate tariff impact for Belkin's cable/routers under US\$250bn tariff catalog. Mgmt. expected that number of workers in Vietnam will reach 30k in peak season in 2020 (vs 20k in 2019). After the relocation, we expect FIT will start to manufacture Belkin's new TWS products in Vietnam in 2H20E.
- Major overhang removed; Lift TP to HK\$4.16 on 2H recovery.** We lowered FY20/21/22E EPS by 36%/6%/6% mainly for 1H20 profit warning and project delays, but we lifted TP to HK\$4.16 as we rollover to 15x FY21E P/E (in-line with 5-year hist. avg.) given our positive view on post-COVID-19 earnings recovery. We estimate 35% EPS FY20-22E CAGR, backed by 10% revenue CAGR. Upcoming catalysts include new products from Belkin/private label and 400G launches in 2H20E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (US\$ mn)	4,006	4,372	4,354	4,878	5,228
YoY growth (%)	17.9	9.2	(0.4)	12.0	7.2
Net income (US\$ mn)	234	235	144	235	262
EPS (US\$ cents)	3.50	3.57	2.18	3.56	3.97
YoY growth (%)	18.8	1.9	(38.9)	63.5	11.5
Consensus EPS (US\$ cents)	N/A	N/A	2.89	3.45	3.92
P/E (x)	12.7	12.5	20.5	12.5	11.2
P/B (x)	1.5	1.4	1.3	1.2	1.1
Yield (%)	2.0	0.0	1.1	1.8	2.0
ROE (%)	12	11.3	6.6	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\$4.16
(Previous TP)	HK\$2.64
Up/Downside	+20.0%
Current Price	HK\$3.47

China Technology Sector

Alex Ng

(852) 3900 0881
alexng@cmbi.com.hk

Stock Data

Mkt. Cap. (HK\$mn)	25,461
Avg. 3mths t/o (HK\$mn)	55.04
52W High/Low (HK\$)	4.00/ 1.56
Total Issued Shares (mn)	6,881

Source: Bloomberg

Shareholding Structure

Foxconn Far East Ltd	75.27%
Lu Sung-Ching	3.33%
Franklin Resources Inc	2.10%

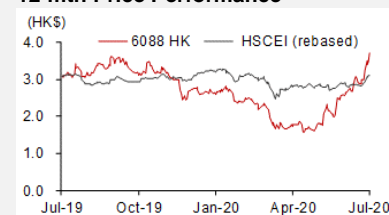
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	34.0%	24.8%
3-mth	101.7%	81.7%
6-mth	34.0%	38.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pricewaterhouse Coopers

Related Reports:

- 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
- FIT (6088 HK, Buy) – Kantatsu deal positive for vehicle biz; Reiterate Buy – 18 Oct 2019

Please cast your valuable vote for CMBIS research team in the 2020 Asiamoney Brokers Poll:

<https://euromoney.com/brokers>

Earnings Revision

Figure 1: CMBIS earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	4,354	4,878	5,228	4,218	4,577	4,868	3%	7%	7%
Gross profit	648	748	810	657	741	799	-1%	1%	1%
Operating profit	167	274	303	263	293	322	-37%	-6%	-6%
Net profit	144	235	262	224	250	278	-36%	-6%	-6%
EPS (RMB)	2.18	3.56	3.97	3.40	3.80	4.23	-36%	-6%	-6%
Gross margin	14.9%	15.3%	15.5%	15.6%	16.2%	16.4%	-0.7 ppt	-1.3 ppt	-1.1 ppt
Operating margin	3.8%	5.6%	5.8%	6.2%	6.4%	6.6%	-2.4 ppt	-2.6 ppt	-1 ppt
Net Margin	3.3%	4.8%	5.0%	5.3%	5.5%	5.7%	-2 ppt	-2.2 ppt	-0.9 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	4,354	4,878	5,228	4,264	4,554	4,625	2%	7%	13%
Gross profit	648	748	810	681	752	759	-5%	-1%	7%
Operating profit	167	274	303	233	283	306	-28%	-3%	-1%
Net profit	144	235	262	191	232	252	-25%	1%	4%
EPS (RMB)	2.18	3.56	3.97	2.89	3.45	3.92	-24%	3%	1%
Gross margin	14.9%	15.3%	15.5%	16.0%	16.5%	16.4%	-1.1 ppt	-1.2 ppt	-0.9 ppt
Operating margin	3.8%	5.6%	5.8%	5.5%	6.2%	6.6%	-1.6 ppt	-0.6 ppt	-0.8 ppt
Net Margin	3.3%	4.8%	5.0%	4.5%	5.1%	5.5%	-1.2 ppt	-0.3 ppt	-0.5 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS P&L forecast

US\$ mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	4,006	1,918	2,454	4,372	1,775	2,579	4,354	4,878	5,228
...YoY	17.9%	11.6%	7.3%	9.2%	-7.5%	5.1%	-0.4%	12.0%	7.2%
Cost of sales	(3,298)	(1,542)	(2,076)	(3,618)	(1,524)	(2,182)	(3,706)	(4,131)	(4,418)
Gross profit	708	376	378	754	252	396	648	748	810
GPM (%)	18%	20%	15%	17%	14%	15%	15%	15%	15%
...YoY	24.3%	27.7%	-8.6%	6.5%	-33.1%	4.9%	-14.1%	15.4%	8.3%
SG&A	(212)	(143)	(126)	(269)	(141)	(132)	(273)	(259)	(277)
...% of rev	-5.3%	-7.4%	-5.2%	-6.2%	-8.0%	-5.1%	-6.3%	-5.3%	-5.3%
R&D	(227)	(121)	(128)	(250)	(125)	(134)	(259)	(263)	(282)
...% of rev	-5.7%	-6.3%	-5.2%	-5.7%	-7.1%	-5.2%	-6.0%	-5.4%	-5.4%
Operating profit	309	122	153	275	5	162	167	274	303
OPM (%)	7.7%	6.4%	6.2%	6.3%	0.3%	6.3%	3.8%	5.6%	5.8%
...YoY	40.4%	-12.9%	-9.1%	-10.8%	-95.9%	5.5%	-39.4%	64.6%	10.3%
Net profit	234	102	134	235	2	142	144	235	262
NPM (%)	5.8%	5.3%	5.4%	5.4%	0.1%	5.5%	3.3%	4.8%	5.0%
...YoY	29.6%	-5.4%	5.7%	0.6%	-98.0%	6.0%	-39.0%	63.5%	11.5%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK4.16

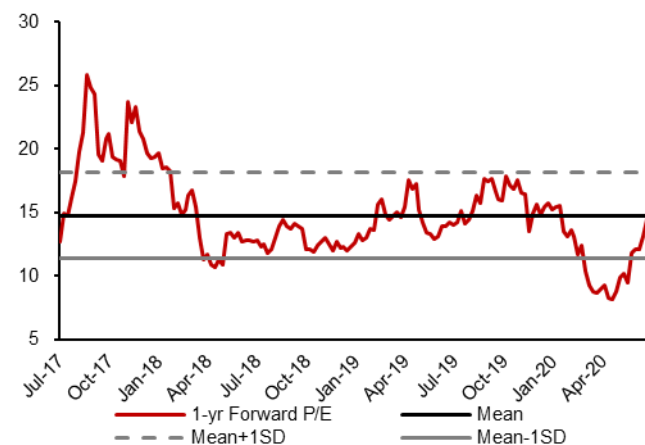
Our new 12m TP of HK\$ 4.16 is based on rollover 15x FY21E P/E (5-yr hist. avg.) given post-COVID-19 earnings recovery. We estimate 35% EPS FY20-22E CAGR, backed by 10% sales CAGR and improving GPM on better product mix. Upcoming catalysts include new products from Belkin/private label and 400G launches in 2H20E.

Figure 4: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
TE	TEL US	NR	26,418	80.09	NA	NA	21.7	16.7	3.0	3.0	13.2	17.1
Amphenol	APH US	NR	28,125	95.05	NA	NA	31.6	25.8	6.5	6.1	20.5	24.3
Delphi	DLPH US	NR	1,218	14.11	NA	NA	-	12.9	7.9	6.0	(1.0)	26.9
Fabrinet	FN US	NR	2,323	63.26	NA	NA	17.4	15.6	2.5	2.1	15.2	15.1
Aviat	6807 JP	NR	1,256	1459.00	NA	NA	13.2	20.9	1.0	0.9	7.5	5.0
Hirose	6806 JP	NR	4,204	11810.00	NA	NA	26.5	30.8	1.4	1.4	5.3	4.4
Luxshare	002475 CH	NR	56,297	56.35	55.4	-2%	42.7	33.9	14.3	10.8	22.3	25.4
Cheng Uei	2392 TT	NR	761	43.75	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	2,786	58.00	NA	NA	11.5	10.6	0.7	0.7	5.9	6.3
Hon Hai	2317 TT	NR	40,584	86.20	NA	NA	11.8	9.6	0.9	0.9	7.5	9.3
Average							22.1	19.6	4.2	3.5	10.7	14.9
FIT Hon Teng	6088 HK	Buy	3,285	3.47	4.16	20%	20.5	12.5	1.3	1.2	6.6	10.0
AAC Tech	2018 HK	Sell	9,512	61.00	36.0	-41%	39.4	30.6	3.4	3.3	11.3	8.3
Sunny Optical	2382 HK	Hold	20,989	148.40	148.0	0%	34.6	25.3	11.6	9.0	31.9	25.9
Tongda	698 HK	Hold	477	0.57	0.5	-7%	7.6	6.6	0.6	0.5	6.1	7.1
BYDE	285 HK	Buy	6,411	22.10	22.2	0%	27.2	20.4	2.6	2.4	9.4	9.0
Q tech	1478 HK	Buy	1,864	12.32	14.8	20%	18.3	14.3	4.4	3.7	18.9	20.0
TK Group	2283 HK	Buy	233	2.17	2.3	7%	3.9	3.4	1.4	1.4	29.7	35.7
FIH	2038 HK	NR	1,006	0.95	NA	NA	17.5	13.6	-	-	-	-
Truly	732 HK	NR	475	1.12	NA	NA	-	-	-	-	-	-
YOFC	6869 HK	NR	2,759	16.62	NA	NA	13.6	11.2	1.2	1.1	9.0	9.9
O-NET	877 HK	NR	674	6.26	NA	NA	21.4	17.4	2.0	1.8	7.8	9.2
Ju Teng	3336 HK	NR	450	2.99	NA	NA	9.5	10.7	0.5	0.5	5.5	4.8
Cowell	1415 HK	NR	383	3.57	NA	NA	9.4	7.8	1.2	1.1	11.2	13.8
Average							23.9	21.3	2.8	2.5	13.0	13.1

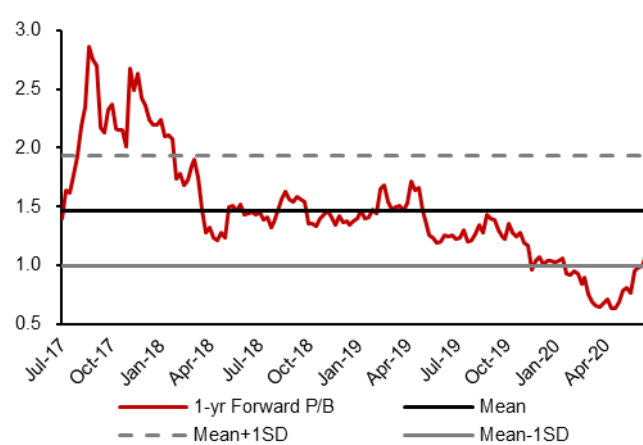
Source: Bloomberg, CMBIS

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						Cash flow summary					
YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,006	4,372	4,354	4,878	5,228	Profit before taxation	311	266	160	270	301
COGS	(3,298)	(3,618)	(3,706)	(4,131)	(4,418)	Depreciation	201	204	221	239	256
Gross profit	708	754	648	748	810	Change in working capital	248	(152)	165	(203)	94
Selling and marketing	(85)	(111)	(111)	(107)	(115)	Others	(64)	(5)	(11)	(32)	(39)
Administrative	(126)	(159)	(162)	(151)	(162)	Net cash from operating	697	313	535	273	612
R&D	(227)	(250)	(259)	(263)	(282)	Capex	(110)	(180)	(180)	(180)	(180)
Other gain/(loss)	41	39	50	49	52	Other	(837)	(237)	24	26	29
Operating profit	309	275	167	274	303	Net cash from investing	(947)	(417)	(156)	(154)	(151)
Financial cost	3	(7)	(5)	(3)	(0)	Net borrowings	694	(496)	601	92	102
Share associate's profit	(0)	(2)	(2)	(2)	(2)	Dividend paid	(47)		(32)	(52)	(58)
Pre-tax profit	311	266	160	270	301	Share issuing					
Tax	(79)	(33)	(16)	(35)	(39)	Other	(72)	432	(29)	(29)	(29)
Minority interest	(1)	(2)	0	0	0	Net cash from financing	575	(64)	540	11	15
Net profit	234	235	144	235	262	Net change in cash	325	(168)	920	130	476
						Cash at beginning of the year	768	1,065	892	1,812	1,942
						Exchange difference	(27)	0	0	0	0
						Cash at the end of the year	1,065	892	1,812	1,942	2,418

Balance sheet						Key ratios					
YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	2,753	2,742	3,656	4,097	4,552	Sales mix (%)					
Cash & equivalents	1,065	892	1,812	1,942	2,418	Consumer electronics	23	18	18	16	16
Account receivables	935	930	927	1,154	1,076	Mobile devices	43	40	41	40	38
Inventories	650	703	700	784	840	Comm. infrastructure	23	20	19	19	20
Short-term bank deposits	6	118	118	118	118	Auto, industrial and medical	2	3	3	4	6
						Connected home	1	6	6	7	7
Non-current assets	1,557	1,665	1,624	1,565	1,490	Smart accessories	8	13	13	14	14
PPE	599	566	525	466	391						
Intangibles	791	745	745	745	745	Growth (%)					
Interests in associates	6	22	22	22	22	Revenue	17.9	9.2	(0.4)	12.0	7.2
Deferred income tax	109	115	115	115	115	Gross profit	24.3	6.5	(14.1)	15.4	8.3
Other non-current assets	52	218	218	218	218	Operating profit	40.4	(10.8)	(39.4)	64.6	10.3
Total assets	4,310	4,407	5,280	5,662	6,041	Net profit	29.6	0.6	(39.0)	63.5	11.5
Current liabilities	2,269	1,662	2,423	2,622	2,797	Profit & loss ratio (%)					
ST borrowings	989	494	1,095	1,186	1,288	Gross margin	17.7	17.2	14.9	15.3	15.5
Account payables	1,191	1,086	1,246	1,354	1,427	Operating margin	7.7	6.3	3.8	5.6	5.8
Tax payable	83	63	63	63	63	Net profit margin	5.8	5.4	3.3	4.8	5.0
Other current liabilities	6.025	19.563	19.563	19.563	19.563						
Non-current liabilities	93	668	668	668	668	Balance sheet ratio					
Other payables	18	10	10	10	10	Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax liability	75	61	61	61	61	Current ratio (x)	1.2	1.6	1.5	1.6	1.6
Total liabilities	2,362	2,330	3,090	3,290	3,465	Receivable turnover days	85	78	78	86	75
Share capital	132	134	134	134	134	Inventory turnover days	72	71	69	69	69
Reserves	1,875	2,025	2,137	2,320	2,524	Payable turnover days	132	110	123	120	118
Non-controlling interests	13	11	11	11	11	Profitability (%)					
Shareholders' equity	1,947	2,077	2,189	2,372	2,577	ROE	12.0	11.3	6.6	9.9	10.2
Total equity and liabilities	4,310	4,407	5,280	5,662	6,041	ROA	5.4	5.3	2.7	4.1	4.3
						Per share data (US\$ cents)					
						EPS	3.50	3.57	2.18	3.56	3.97
						DPS	0.90	0.00	0.48	0.78	0.87

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

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
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

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

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.