

FIT Hon Teng (6088 HK)

1Q23 dragged by higher investments and macro headwinds; Maintain BUY on 2H recovery

FIT Hon Teng announced 1Q23 net loss of US\$5-10mn, in-line with its earlier conservative FY23E guidance (rev flattish/ NP down 5-15% YoY), mainly due to higher investments in 3+3 strategy and weaker consumer electronic. FIT also announced to acquire a land in India for US\$23.8mn as part of its strategic directions and overseas expansion. After speaking to FIT's mgmt., we remain positive on FIT's strategic transformation into EV/audio/5G&IoT in FY23-24E, and we expect 2H23 earnings growth to recover after a weaker 1H23E. We lowered FY23-25E EPS by 2-10% to reflect higher investments and macro headwinds in 2023E. The stock now trades at 10.9x/8.4x FY23E/24E P/E. Reiterate BUY with new TP of HK\$2.30 based on same 11x FY24E P/E. Catalysts include M&A and TWS progress.

- **1Q23 earnings dragged by higher investments and weak consumer electronic demand.** Mgmt. expected that 1Q23 revenue to decline given weak consumer electronic demand and high base effect in 1Q22, and 1Q23 earnings will post a net loss of US\$5-10mn given higher expenses for strategic development and weaker shipment. While we expect 2Q23 to remain weak due to higher expenses for global expansion, softer consumer electronics demand and macro weakness, mgmt. believe 2H23 earnings growth will recover following seasonal restocking and deal close of Prettl SWH acquisition. Overall, 1Q23 results is largely in-line with earlier FY23E guidance of flattish sales and net profit decline of 5-15% YoY.
- **Accelerated investments in India for strategic expansion.** FIT announced plans to acquire land of area 186.7 acres in India for US\$ 23.8mn, which aligns with its US\$800mn CAPEX plan in FY23E for global footprint expansion and strategic areas (EV/audio/5G&IoT). Despite short-term earnings pressure in FY23E, we believe global manufacturing expansion will allow FIT to capture opportunities in US major client's TWS projects and expansion in EV business, which will boost business growth in FY24/25. We are positive on "3+3 Strategy" revenue mix increase to 30%/40% in FY23/25E from 24% in FY22.
- **Attractive Risk/reward; EV/TWS projects to boost FY24/25E growth.** We trimmed our FY23-25E EPS by 2-10% to reflect higher investments and macro headwinds. Our new TP of HK\$2.30 is based on same 11x FY24E P/E (33% below 5-year hist. avg.). Trading at 10.9x/8.4x 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	4,690	5,217	5,729
YoY growth (%)	4.1	0.9	3.5	11.2	9.8
Net profit (US\$ mn)	136.8	170.3	144.9	187.1	230.2
YoY growth (%)	221.3	24.5	(14.9)	29.1	23.0
EPS (Reported) (US\$ cents)	2.04	2.42	2.08	2.69	3.30
Consensus EPS (US\$)	na	2.18	2.50	2.66	3.33
P/E (x)	13.4	6.6	10.9	8.4	6.9
P/B (x)	0.8	0.5	0.6	0.6	0.5
Yield (%)	164.4	0.0	0.0	0.0	0.0
ROE (%)	6.0	7.2	6.0	7.2	8.2
Net gearing (%)	na	na	0.0	na	na

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.30
(Previous TP)	HK\$2.46)
Up/Downside	48.3%
Current Price	HK\$1.55

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Stock Data

Mkt Cap (HK\$ mn)	12,935.3
Avg 3 mths t/o (HK\$ mn)	16.8
52w High/Low (HK\$)	2.46/0.92
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

Foxconn Far East Ltd	71.2%
Lu Sung-Ching	5.9%

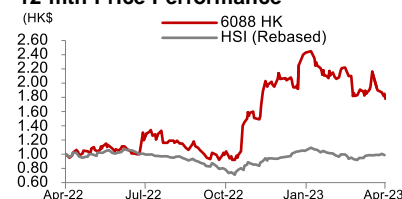
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.8%	-7.7%
3-mth	-26.7%	-19.6%
6-mth	71.2%	38.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1. FIT Hon Teng (6088 HK) – Recent correction overdone; Investment to accelerate "3+3 strategy" transition - 16 Mar 2023 ([link](#))
2. 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	4,690	5,217	5,729	4,744	5,326	5,847	-1%	-2%	-2%
Gross profit	830	923	1,014	840	942	1,034	-1%	-2%	-2%
Operating profit	239	287	338	258	303	344	-8%	-5%	-2%
Net profit	146	188	231	161	201	236	-10%	-7%	-2%
EPS (USD cents)	2.08	2.69	3.30	2.30	2.87	3.38	-10%	-7%	-2%
Gross margin	17.7%	17.7%	17.7%	17.7%	17.7%	17.7%	0 ppt	0 ppt	0 ppt
Operating margin	5.1%	5.5%	5.9%	5.4%	5.7%	5.9%	-0.4 ppt	-0.2 ppt	0 ppt
Net Margin	3.1%	3.6%	4.0%	3.4%	3.8%	4.0%	-0.3 ppt	-0.2 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	4,690	5,217	5,729	4,668	5,049	5,509	0%	3%	4%
Gross profit	830	923	1,014	817	893	983	2%	3%	3%
Operating profit	239	287	338	260	296	330	-8%	-3%	3%
Net profit	146	188	231	169	194	220	-14%	-3%	5%
EPS (USD cents)	2.08	2.69	3.30	2.50	2.66	3.33	-17%	1%	-1%
Gross margin	17.7%	17.7%	17.7%	17.5%	17.7%	17.8%	0.2 ppt	0 ppt	-0.1 ppt
Operating margin	5.1%	5.5%	5.9%	5.6%	5.9%	6.0%	-0.5 ppt	-0.4 ppt	-0.1 ppt
Net Margin	3.1%	3.6%	4.0%	3.6%	3.8%	4.0%	-0.5 ppt	-0.2 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

US\$ 000	FY21	FY22	FY23E	FY24E	FY25E
Computing	803,167	819,708	901,679	991,847	1,120,787
...YoY	-	2%	10%	10%	13%
Smartphones	1,306,718	1,261,047	1,261,047	1,298,878	1,363,822
...YoY	-	-3%	0%	3%	5%
Networking	879,468	753,854	633,237	664,899	698,144
...YoY	-	-14%	-16%	5%	5%
EV Mobility	138,894	152,814	358,645	585,060	715,714
...YoY	-	10%	135%	63%	22%
EV business	-	152,814	168,095	184,905	203,395
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	186,840	192,445	198,219
...YoY	-	-17%	-10%	3%	3%
Total	4,490,215	4,530,603	4,690,384	5,216,959	5,728,898
...YoY	4.1%	0.9%	3.5%	11.2%	9.8%

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	4,690	5,217	5,729
...YoY	-1.3%	4.1%	0.9%	3.5%	11.2%	9.8%
Cost of sales	(3,735)	(3,817)	(3,763)	(3,861)	(4,294)	(4,715)
Gross profit	580	673	768	830	923	1,014
GPM (%)	13%	15%	17%	18%	18%	18%
...YoY	-23.1%	16.1%	14.1%	8.1%	11.3%	9.8%
SG&A	(230)	(266)	(223)	(300)	(313)	(332)
...% of rev	-5.3%	-5.9%	-4.9%	-6.4%	-6.0%	-5.8%
R&D	(235)	(301)	(296)	(338)	(376)	(401)
...% of rev	-5.4%	-6.7%	-6.5%	-7.2%	-7.2%	-7.0%
Operating profit	125	177	307	239	287	338
OPM (%)	2.9%	3.9%	6.8%	5.1%	5.5%	5.9%
...YoY	-54.7%	41.6%	74.0%	-22.3%	20.1%	17.8%
Net profit	43	138	170	146	188	231
NPM (%)	1.0%	3.1%	3.7%	3.1%	3.6%	4.0%
...YoY	-81.9%	223.8%	23.2%	-14.2%	29.1%	23.0%

Source: Company data, CMBIGM estimates

Valuation

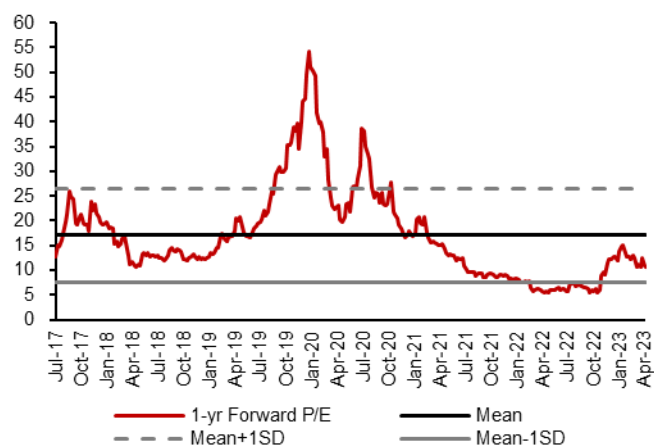
Maintain BUY with new TP of HK\$2.30

Our new 12m TP of HK\$ 2.30 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 10.9x/8.4x FY23/24E P/E, we think risk-reward is attractive. Upcoming catalysts include Prettl acquisition progress, Apple share gain and improving margins.

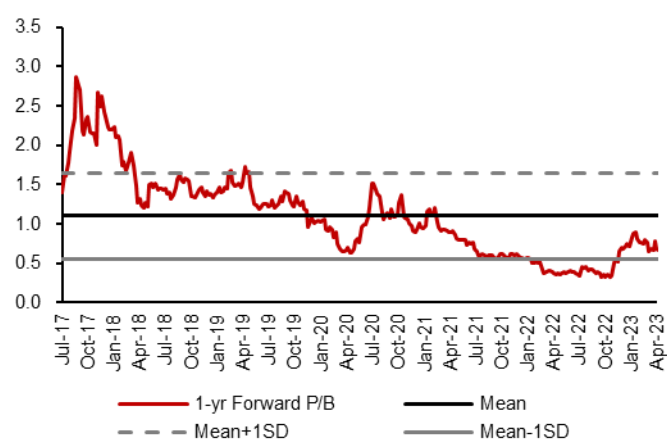
Figure 5: Peers' valuation

Figure 8: P/E ratio valuation												
			Market Cap	Price	TP	Up/ Down	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	US\$(mn)	(LC)	(LC)	-side	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Global Connectors												
TE	TEL US	NR	40,532	128.08	NA	NA	19.4	16.7	3.5	3.2	18.5	20.0
Amphenol	APH US	NR	45,779	76.99	NA	NA	25.7	23.3	5.9	5.2	25.3	24.9
Fabrinet	FN US	NR	3,493	95.42	NA	NA	12.4	11.5	2.4	2.0	20.7	18.8
Aviat	6807 JP	NR	1,670	2432.00	NA	NA	14.3	14.3	1.3	1.2	9.4	9.5
Hirose	6806 JP	NR	5,045	18210.00	NA	NA	17.9	19.1	1.8	1.7	10.1	9.2
Luxshare	002475 CH	Buy	27,916	27.00	52.3	94%	15.5	11.8	2.9	2.6	18.6	22.4
Cheng Uei	2392 TT	NR	691	41.35	NA	NA	9.5	-	0.8	-	8.8	-
Foxconn	2354 TT	NR	2,464	53.40	NA	NA	14.3	12.2	0.7	0.7	5.0	5.6
Hon Hai	2317 TT	NR	46,807	103.50	NA	NA	9.7	8.6	0.9	0.8	9.8	10.7
Average							15.4	14.7	2.2	2.2	14.0	15.2
China technology												
FIT Hon Teng	6088 HK	Buy	1,440	1.55	2.30	48%	10.9	8.4	0.5	0.5	5.6	7.1
AAC Tech	2018 HK	Hold	2,535	16.60	15.6	-6%	15.2	12.1	0.8	0.7	5.1	6.1
Sunny Optical	2382 HK	Hold	11,913	85.25	86.8	2%	26.0	22.5	3.5	3.2	13.4	14.1
Tongda	698 HK	Buy	140	0.11	0.2	77%	3.1	2.8	0.1	0.1	2.9	4.7
BYDE	285 HK	Hold	6,488	22.60	20.3	-10%	15.7	12.7	1.6	1.4	10.2	11.4
Q tech	1478 HK	Buy	589	3.90	5.2	33%	8.1	6.0	0.8	0.7	9.8	12.0
TK Group	2283 HK	Buy	180	1.70	3.4	99%	3.3	4.3	0.7	0.7	20.7	17.5
FIH	2083 HK	NR	807	0.80	NA	NA	20.4	10.2	0.5	0.4	2.2	4.4
YOFC	6869 HK	NR	3,037	16.40	NA	NA	8.1	7.1	0.9	0.9	11.7	11.9
Cowell	1415 HK	NR	1,699	15.80	NA	NA	16.8	11.7	3.7	2.8	23.1	26.3
Average							12.1	9.0	1.2	1.1	10.3	29.1

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	4,690	5,217	5,729
Cost of goods sold	(3,735)	(3,817)	(3,763)	(3,861)	(4,294)	(4,715)
Gross profit	580	673	768	830	923	1,014
Selling expense	(97)	(105)	(93)	(113)	(125)	(137)
Admin expense	(134)	(161)	(130)	(188)	(188)	(195)
R&D expense	(235)	(301)	(296)	(338)	(376)	(401)
Others	11	70	58	47	52	57
Operating profit	125	177	307	239	287	338
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	181	231	284
Income tax	(74)	(31)	(78)	(36)	(44)	(54)
Minority interest	0	(1)	1	(1)	(1)	(1)
Net profit	43	137	170	145	187	230

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	2,848	3,034	2,764	2,676	2,867	3,332
Cash & equivalents	766	769	914	417	667	654
Account receivables	872	1,033	720	1,095	924	1,293
Inventories	944	982	967	1,001	1,113	1,222
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	4,914	5,122	5,568
Current liabilities	1,790	1,937	1,539	1,761	1,782	1,998
Short-term borrowings	604	690	453	453	453	453
Account payables	1,032	1,138	971	1,193	1,214	1,429
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	2,422	2,443	2,658
Share capital	135	139	142	142	142	142
Other reserves	2,145	2,348	2,295	2,440	2,627	2,857
Total shareholders equity	2,190	2,396	2,347	2,492	2,679	2,909
Minority interest	3	1	2	2	2	2
Total equity and liabilities	4,639	5,007	4,547	4,914	5,122	5,568

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	117	167	248	181	231	284
Depreciation & amortization	241	146	270	345	383	420
Tax paid	(39)	(31)	(78)	(36)	(44)	(54)
Change in working capital	(279)	(93)	161	(187)	79	(263)
Others	74	(104)	0	0	0	0
Net cash from operations	115	85	602	303	649	387
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	417	667
Exchange difference	43	0	0	0	0	0
Cash at the end of the year	766	769	914	417	667	654
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(1.3%)	4.1%	0.9%	3.5%	11.2%	9.8%
Gross profit	(23.1%)	16.1%	14.1%	8.1%	11.3%	9.8%
Operating profit	(54.7%)	41.6%	74.0%	(22.3%)	20.1%	17.8%
Net profit	(81.8%)	221.3%	24.5%	(14.9%)	29.1%	23.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	13.4%	15.0%	16.9%	17.7%	17.7%	17.7%
Operating margin	2.9%	3.9%	6.8%	5.1%	5.5%	5.9%
Return on equity (ROE)	2.0%	6.0%	7.2%	6.0%	7.2%	8.2%
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	1.5	1.6	1.7
Receivable turnover days	73.7	84.0	58.0	85.2	64.6	82.4
Inventory turnover days	92.3	93.9	93.8	94.6	94.6	94.6
Payable turnover days	100.8	108.8	94.2	112.8	103.2	110.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	55.1	13.4	6.6	10.9	8.4	6.9
P/B	1.1	0.8	0.5	0.6	0.6	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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