

FIT Hon Teng (6088 HK)

“3+3 Strategy” execution on track; Attractive risk/reward

FIT's FY21 net profit of US\$137mn (+220% YoY) is in-line with positive profit alert earlier (US\$130-140mn), mainly driven by 2H21 sales recovery, improving product mix and one-time gain of US\$45mn from sales of Linksys and Sharp's settlement. Despite COVID-19 impact in Vietnam, 2H21 revenue recovered at 4.6% YoY growth (vs 3.4% in 1H21), backed by solid CPU/network socket, EV mobility (Tesla charging) and smart accessories (channel reopening, new TWS). Looking ahead, we are positive on FIT's "3+3 Strategy" execution (EV, 5G AIoT, Audio), and mgmt. raised guidance of "3+3" revenue mix to reach 31% in 2023 (vs 16% in 2021). After recent sell-off, the stock now trades at distressed valuation of 5.2x FY22E P/E, compared to 11%/19% EPS growth in FY22/23E. Maintain BUY with new TP of HK\$1.76 (10x FY22E P/E, 1-sd below hist. avg).

- FY21 in-line with positive profit alert; Solid sockets/EV/Belkin offset by earphone removal.** Despite slower mobile segment (iPhone earphone) and connected home (Linksys disposal), revenue recovered at 4.6% YoY in 2H21 (vs 3.4% in 1H21), driven by 14%/15%/49% YoY growth of communication (CPU/network socket), EV segment (Tesla charging), and smart accessories (Belkin). 2H21 GPM also returned to pre-pandemic level at 16.2% (13.5% in 1H21). Excluding one-off gain (Linksys sales, Sharp settlement), 2H21 net profit would grow at 114% YoY, vs -58% YoY in 1H21.
- “3+3 Strategy” speeding up: EV Mobility, 5G AIoT and Audio.** Mgmt. revised up “3+3 Strategy” revenue mix guidance to 31% in 2023 (from 21%) as the company is poised to accelerate expansion into fast-growing EV segment (charging, interconnect, display), 5G AIoT (socket, networking) and Audio (Beats, Belkin, SSI). We are also positive on FIT's recent acquisitions of SSI for Audio micro-speaker and Autotalks/Powermat for EV segment, which will boost profitability and drive earnings growth of 11%/19% YoY in FY22/23E.
- Attractive risk/reward; Maintain BUY with new TP of HK\$1.76.** We revised our FY22E EPS to reflect Linksys disposal and earphone removal. Our new TP of HK\$1.76 is based on 10x FY21E P/E (1-sd below 5-year hist. avg.). Trading at 5.2 FY22E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	4,315	4,490	4,601	5,068	5,590
YoY growth (%)	(1.3)	4.1	2.5	10.2	10.3
Net income (US\$ mn)	43	138	153	181	206
EPS (US\$ cents)	0.64	2.04	2.27	2.68	3.05
YoY growth (%)	(82.2)	219.9	11.1	18.5	13.4
Consensus EPS (US\$ cents)	n/a	n/a	2.00	2.67	n/a
P/E (x)	21.8	6.8	6.1	5.2	4.6
P/B (x)	0.4	0.4	0.4	0.4	0.3
Yield (%)	1.0	3.2	3.6	4.3	4.8
ROE (%)	1.9	5.7	6.1	6.8	7.3
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$1.76**
 (Previous TP **HK\$3.63**)
 Up/Downside **+63%**
 Current Price **HK\$1.03**

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	7,419
Avg. 3mths t/o (HK\$mn)	5.24
52W High/Low (HK\$)	2.75/ 0.86
Total Issued Shares (mn)	7,134

Source: Bloomberg

Shareholding Structure

Foxconn Far East Ltd	76.61%
Lu Sung-Ching	3.98%

Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-33.3%	-18.0%
3-mth	-38.1%	-27.6%
6-mth	-38.1%	-23.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Results Review

Figure 1: FY21 results review

US\$ mn	FY19	FY20	FY21	YoY	Consensus	Diff (%)
Revenue	4,372	4,315	4,490	4%	4,233	6%
Gross profit	754	580	673	16%	631	7%
Operating profit	275	125	177	42%	128	38%
Net profit	235	43	138	224%	98	41%
EPS (USD cents)	3.57	0.64	2.04	220%	1.50	36%
Gross margin	17.2%	13.4%	15.0%	1.6ppt	14.9%	0.1ppt
Operating margin	6.3%	2.9%	3.9%	1ppt	3.0%	0.9ppt
Net margin	5.4%	1.0%	3.1%	2.1ppt	2.3%	0.8ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 2: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,601	5,068	5,590	4,450	n/a	n/a	3%	n/a	n/a
Gross profit	710	801	888	741	n/a	n/a	-4%	n/a	n/a
Operating profit	185	218	245	283	n/a	n/a	-34%	n/a	n/a
Net profit	153	181	206	241	n/a	n/a	-37%	n/a	n/a
EPS (USD cents)	2.27	2.68	3.05	3.61	n/a	n/a	-37%	n/a	n/a
Gross margin	15.4%	15.8%	15.9%	16.7%	n/a	n/a	-1.3 ppt	n/a	n/a
Operating margin	4.0%	4.3%	4.4%	6.4%	n/a	n/a	-2.4 ppt	n/a	n/a
Net Margin	3.3%	3.6%	3.7%	5.4%	n/a	n/a	-2.1 ppt	n/a	n/a

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,601	5,068	5,590	4,447	4,531	n/a	3%	12%	n/a
Gross profit	710	801	888	689	793	n/a	3%	1%	n/a
Operating profit	185	218	245	182	226	n/a	2%	-3%	n/a
Net profit	153	181	206	141	183	n/a	8%	-1%	n/a
EPS (USD cents)	2.27	2.68	3.05	2.00	2.67	n/a	13%	1%	n/a
Gross margin	15.4%	15.8%	15.9%	15.5%	17.5%	n/a	-0.1 ppt	-1.7 ppt	n/a
Operating margin	4.0%	4.3%	4.4%	4.1%	5.0%	n/a	-0.1 ppt	-0.7 ppt	n/a
Net Margin	3.3%	3.6%	3.7%	3.2%	4.0%	n/a	0.2 ppt	-0.5 ppt	n/a

Source: Company data, CMBIGM estimates

Figure 4: P&L forecast

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,372	4,315	4,490	4,601	5,068	5,590
...YoY	9.2%	-1.3%	4.1%	2.5%	10.2%	10.3%
Cost of sales	(3,618)	(3,735)	(3,817)	(3,891)	(4,267)	(4,702)
Gross profit	754	580	673	710	801	888
GPM (%)	17%	13%	15%	15%	16%	16%
...YoY	6.5%	-23.1%	16.1%	5.5%	12.8%	10.9%
SG&A	(269)	(230)	(266)	(258)	(279)	(307)
...% of rev	-6.2%	-5.3%	-5.9%	-5.6%	-5.5%	-5.5%
R&D	(250)	(235)	(301)	(299)	(329)	(363)
...% of rev	-5.7%	-5.4%	-6.7%	-6.5%	-6.5%	-6.5%
Operating profit	275	125	177	185	218	245
OPM (%)	6.3%	2.9%	3.9%	4.0%	4.3%	4.4%
...YoY	-10.8%	-54.7%	41.6%	5.0%	17.4%	12.6%
Net profit	235	43	138	153	181	206
NPM (%)	5.4%	1.0%	3.1%	3.3%	3.6%	3.7%
...YoY	0.6%	-81.9%	223.8%	11.1%	18.5%	13.4%

Source: Company data, CMBIGM estimates

Figure 5: Revenue breakdown

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Computers and consumer electronics	795	875	976	1,025	1,076	1,130
...YoY	-15%	10%	12%	5%	5%	5%
Mobile and wireless devices	1,739	1,653	1,392	1,406	1,476	1,550
...YoY	2%	-5%	-16%	1%	5%	5%
Communications infrastructure	885	802	887	932	1,072	1,211
...YoY	-6%	-9%	11%	5%	15%	13%
Automotive, industrial and medical	129	145	176	203	253	329
...YoY	62%	12%	22%	15%	25%	30%
Connected home	266	298	196	-	-	-
...YoY	622%	12%	-34%	0%	0%	0%
Smart accessories	559	542	863	1,036	1,191	1,370
...YoY	84%	-3%	59%	20%	15%	15%
Total	4,372	4,315	4,490	4,601	5,068	5,590
...YoY	9.2%	-1.3%	4.1%	2.5%	10.2%	10.3%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK1.76

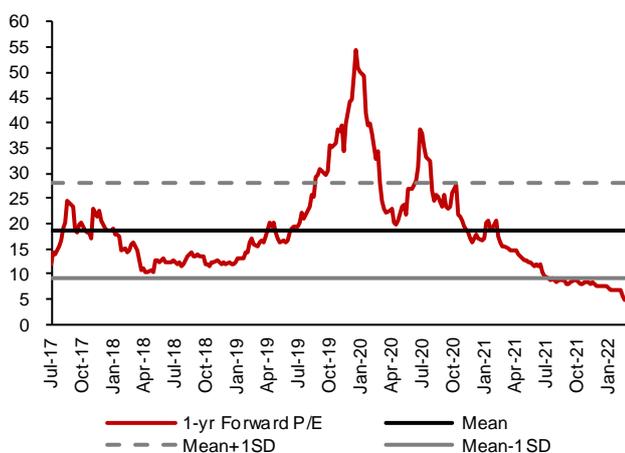
Our new 12m TP of HK\$ 1.76 is based on 10x FY22E P/E (vs prior 15x). Trading at 5.2 FY22E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins

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 (%)	
							FY21	FY22E	FY21	FY22E	FY21	FY22E
Global Connectors												
TE	TEL US	NR	43,191	132.66	NA	NA	20.5	18.4	4.3	3.7	22.2	21.3
Amphenol	APH US	NR	45,472	75.92	NA	NA	31.4	27.6	7.7	6.6	26.6	26.1
Fabrinet	FN US	NR	3,827	103.45	NA	NA	22.6	17.2	3.4	2.9	16.4	18.5
Aviat	6807 JP	NR	1,439	1855.00	NA	NA	36.2	12.6	1.2	1.1	3.4	9.1
Hirose	6806 JP	NR	5,539	17270.00	NA	NA	32.1	21.3	2.0	1.8	6.2	8.8
Luxshare	002475 CH	Buy	38,786	34.90	*74.2	NA	19.7	23.0	6.6	5.1	25.8	24.9
Cheng Uei	2392 TT	NR	687	38.00	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	3,130	62.70	NA	NA	12.6	11.0	0.6	0.6	6.1	6.9
Hon Hai	2317 TT	NR	51,861	106.00	NA	NA	10.6	10.0	1.0	1.0	10.0	9.7
Average							23.2	17.6	3.4	2.9	16.0	15.7
China technology												
FIT Hon Teng	6088 HK	Buy	2,515	1.76	3.63	63%	6.8	6.1	0.4	0.4	5.7	6.1
AAC Tech	2018 HK	Hold	2,961	19.16	37.4	95%	13.1	10.2	1.0	0.9	7.0	8.0
Sunny Optical	2382 HK	Hold	19,315	137.70	140.5	53%	25.0	19.6	8.0	6.3	25.2	27.4
Tongda	698 HK	Buy	152	0.12	0.6	NA	1.5	2.0	0.1	0.1	7.7	7.1
BYDE	285 HK	Hold	5,423	18.82	26.4	40%	13.1	10.4	1.7	1.6	11.9	15.3
Q tech	1478 HK	Buy	957	6.33	*22.0	NA	6.2	5.2	1.8	1.4	23.1	24.5
TK Group	2283 HK	Buy	231	2.17	*4.1	NA	3.4	3.4	1.4	1.4	41.7	27.9
FIH	2038 HK	NR	1,053	1.03	NA	NA	65.9	16.5	0.5	0.5	0.7	2.9
Truly	732 HK	NR	951	2.26	NA	NA	5.7	4.5	-	-	11.6	13.1
YOFC	6869 HK	NR	2,298	10.78	NA	NA	10.6	7.7	0.7	0.6	7.9	8.3
Ju Teng	3336 HK	NR	212	1.38	NA	NA	8.1	6.9	0.3	0.2	3.1	3.6
Cowell	1415 HK	NR	797	7.47	NA	NA	14.0	10.1	2.4	2.0	19.1	22.8
Average							18.5	14.0	3.6	3.0	14.5	16.0

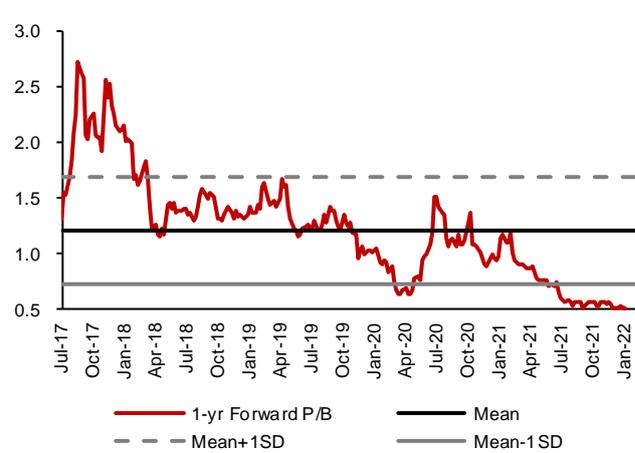
Source: Bloomberg, CMBIGM, * TP under review

Figure 7: 12M forward P/E band



Source: Company data, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,315	4,490	4,601	5,068	5,590
COGS	(3,735)	(3,817)	(3,891)	(4,267)	(4,702)
Gross profit	580	673	710	801	888
Selling and marketing	(97)	(105)	(101)	(111)	(123)
Administrative	(134)	(161)	(156)	(167)	(184)
R&D	(235)	(301)	(299)	(329)	(363)
Other gain/(loss)	11	70	32	25	28
Operating profit	125	177	185	218	245
Financial cost	1	(2)	(1)	1	2
Share associate's profit	(9)	(8)	(4)	(4)	(4)
Pre-tax profit	117	167	181	215	243
Tax	(74)	(31)	(27)	(32)	(37)
Minority interest	0	(1)	1	1	1
Net profit	43	138	153	181	206

Cash flow summary

YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before taxation	117	167	181	215	243
Depreciation	241	146	156	167	178
Change in working capital	(279)	(93)	25	(136)	(55)
Others	36	(135)	(27)	(33)	(38)
Net cash from operating	115	85	336	213	328
Capex	(335)	(241)	(200)	(200)	(200)
Other	(21)	461	12	13	15
Net cash from investing	(356)	220	(188)	(187)	(185)
Net borrowings	-	86	(61)	36	40
Dividend paid	-	(30)	(34)	(40)	(45)
Share issuing					
Other	71	65	(13)	(13)	(13)
Net cash from financing	71	120	(107)	(17)	(18)
Net change in cash	(169)	425	41	9	125
Cash at beginning of the year	892	766	769	811	820
Exchange difference	43	-	-	-	-
Cash at the end of the year	766	769	811	820	945

Balance sheet

YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	2,848	3,034	2,985	3,409	3,557
Cash & equivalents	766	769	811	820	945
Account receivables	872	1,033	918	1,231	1,140
Inventories	944	982	1,007	1,109	1,223
Short-term bank deposits	126	98	98	98	98
Non-current assets	1,791	1,973	2,016	2,049	2,071
PPE	728	823	867	900	921
Intangibles	709	634	634	634	634
Interests in associates	24	172	172	172	172
Deferred income tax	135	133	133	133	133
Other non-current assets	195	211	211	211	211
Total assets	4,639	5,007	5,001	5,458	5,628
Current liabilities	1,790	1,937	1,811	2,126	2,134
ST borrowings	604	690	629	665	705
Account payables	1,032	1,138	1,073	1,352	1,320
Tax payable	129	94	94	94	94
Other current liabilities	25.530	15.243	15.243	15.243	15.243
Non-current liabilities	659	674	674	674	674
Other payables	5	10	10	10	10
Deferred tax liability	50	42	42	42	42
Total liabilities	2,449	2,611	2,485	2,800	2,808
Share capital	135	139	139	139	139
Reserves	2,145	2,348	2,467	2,608	2,769
Non-controlling interests	3	1	2	3	4
Shareholders' equity	2,190	2,396	2,516	2,658	2,820
Total equity and liabilities	4,639	5,007	5,001	5,458	5,628

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Sales mix (%)					
Consumer electronics	20	22	22	21	20
Mobile devices	38	31	31	29	28
Comm. infrastructure	19	20	20	21	22
Auto, industrial and medical	3	4	4	5	6
Connected home	7	4	0	0	0
Smart accessories	13	19	23	24	25
Growth (%)					
Revenue	(1.3)	4.1	2.5	10.2	10.3
Gross profit	(23.1)	16.1	5.5	12.8	10.9
Operating profit	(54.7)	41.6	5.0	17.4	12.6
Net profit	(81.9)	223.8	11.1	18.5	13.4
Profit & loss ratio (%)					
Gross margin	13.4	15.0	15.4	15.8	15.9
Operating margin	2.9	3.9	4.0	4.3	4.4
Net profit margin	1.0	3.1	3.3	3.6	3.7
Balance sheet ratio					
Net debt/total equity (x)	Net cash				
Current ratio (x)	1.6	1.6	1.6	1.6	1.7
Receivable turnover days	74	84	73	89	74
Inventory turnover days	92	94	94	95	95
Payable turnover days	101	109	101	116	102
Profitability (%)					
ROE	1.9	5.7	6.1	6.8	7.3
ROA	0.9	2.7	3.1	3.3	3.7
Per share data (US\$ cents)					
EPS	0.64	2.04	2.27	2.68	3.05
DPS	0.14	0.45	0.50	0.59	0.67

Source: Company data, CMBIGM estimates

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