

FIT Hon Teng (6088 HK)

NDR takeaways: Opportunities in US\$1.7bn server connector/cable market; Lift TP to HK\$2.42

Maintain BUY and raise TP to HK\$2.42 to reflect stronger demand of next-gen high-speed connectivity in AI servers in FY24/25E, backed by MCIO connectors/cables and high-speed I/O products, recent launch of 224G high-speed products at DesignCon ([link](#)), and collaboration with MediaTek for high-speed connectivity solutions in CPO sockets at OFC ([link](#)). During our NDR last week, mgmt. was positive on rising copper connectivity trend in AI servers and expected 1) 15-20% YoY for networking/server in FY24E (30-40% GPM), and 2) AI server related revenue (mainly copper) to reach 8-10% FY24E sales (vs. 1% in FY23), backed by new copper products and high-speed connection products in AI server. We lifted FY24-25 EPS by 9-10% to reflect stronger demand of AI-related products and share gain from the US peers (Amphenol, TEL, Molex) in global server connector market following mass production of new AI products in FY24/25E.

- Poised to benefit from AI server copper connectivity trends.** As a global server connector leader (along with Amphenol, TEL and Molex), during our NDR last week, FIT mgmt. is positive on the trend of high-speed copper connectivity in Nvidia's GB200 NVL72, which uses 5,000 copper cables (over 2 miles) for intra-rack connections for better reliability and cost/power efficiency. Leveraging collaboration with Foxconn Group and key ODM/CSP players for Nvidia products, FIT guided 15-20% YoY growth for networking/server segment, and AI-related products (mainly copper) will reach 8-10% of FY24E sales (vs 1% in FY23), driven by new copper products launched in 4Q23 and 2H24E mass production of MCIO connectors/cables and high-speed I/O such as EDSFF and Gen-Z connectors.
- Server connector & cable market TAM to reach US\$ 1.7bn in 2025.** Mgmt. estimated global server connector & cable market TAM of US\$ 1.7bn in 2025, and we expect FIT to capture 20-30% market share, reaching US\$500mn sales in FY25E. Overall, we expect FIT's net profit to grow 55%/27% YoY in FY24/25E, backed by AI server connectivity product ramp-up, AirPods share gain and Voltaira auto business consolidation.
- Expect more catalysts in near term; Raise TP to HK\$2.42.** FIT's stock surged 53% since our last TP upgrade on 14 Mar ([report](#)), driven by upbeat FY24 guidance and opportunities of within-rack copper connectivity in NVIDIA's GB200 NVL72 system at GTC 2024. Trading at 9.2x/7.2x FY24/25 P/E (vs 15x hist. avg. P/E), we think the valuation is attractive. Reiterate BUY with new TP of HK\$ 2.42, based on same 11x FY24E P/E. Near-term catalysts include AI server product launch and AirPods shipment.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	4,531	4,196	4,715	5,412	6,233
YoY growth (%)	0.9	(7.4)	12.4	14.8	15.2
Net profit (US\$ mn)	170.3	129.6	201.2	256.3	340.1
YoY growth (%)	24.5	(23.9)	55.3	27.4	32.7
EPS (Reported) (US\$ cents)	2.42	1.82	2.83	3.60	4.78
Consensus EPS (US\$)	N/A	N/A	2.48	3.05	1.80
P/E (x)	6.6	10.5	9.2	7.2	5.4
P/B (x)	0.5	0.5	0.7	0.6	0.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	7.2	5.4	7.9	9.3	11.1
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.42
(Previous TP)	HK\$2.21
Up/Downside	19.3%
Current Price	HK\$2.03

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Stock Data

Mkt Cap (HK\$ mn)	14,752.0
Avg 3 mths t/o (HK\$ mn)	12.2
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%

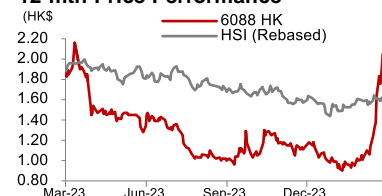
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	103.0%	106.1%
3-mth	82.9%	81.4%
6-mth	99.0%	114.2%

Source: FactSet

12-mth Price Performance

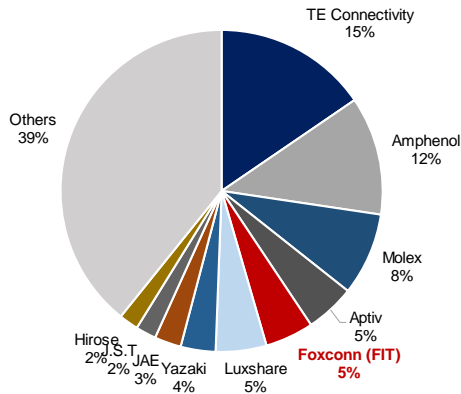


Source: FactSet

Related Reports:

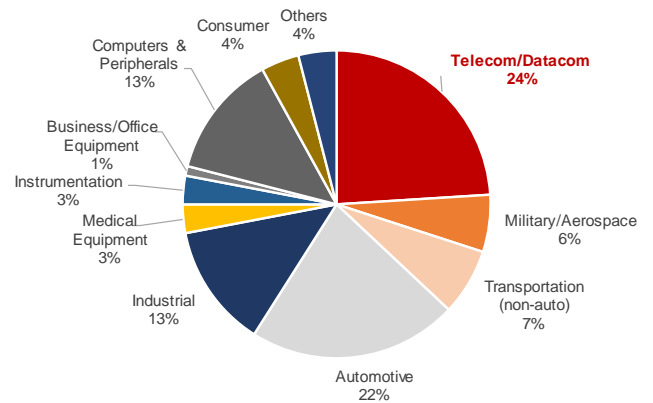
- FIT Hon Teng (6088 HK) - FY23 in line; upbeat FY24E outlook on AI server/networking, EV and AirPods upside – 14 Mar 24 ([link](#))
- FIT Hon Teng (6088 HK) - FY23E preview: earnings recovery on track, multiple growth drivers in FY24/25E - 8 Feb 24 ([link](#))
- FIT Hon Teng (6088 HK) - 3Q23 earnings beat on better product mix and record-high GPM - 10 Nov 23 ([link](#))
- FIT Hon Teng (6088 HK) - Weak 1H23 in-line; Positive outlook in 2H23E – 9 Aug 23 ([link](#))

Figure 1: Global connector industry market share (2020)



Source: Bishop & Associates, CMBIGM

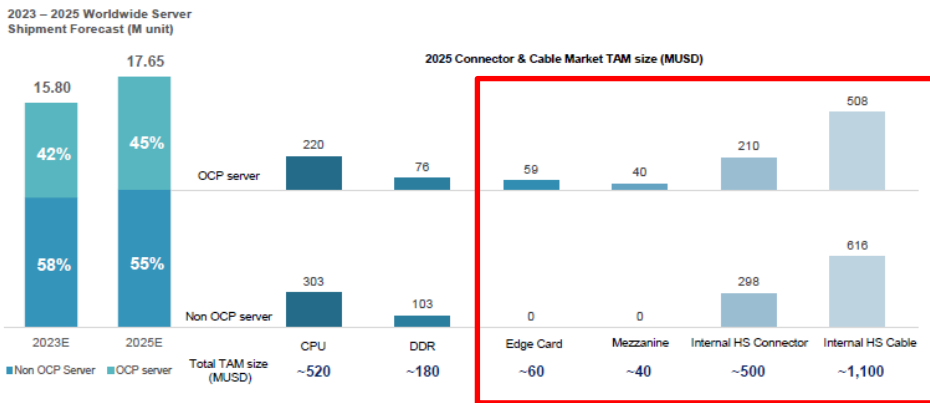
Figure 2: Global connector industry end market mix (2022)



Source: Bishop & Associates, CMBIGM

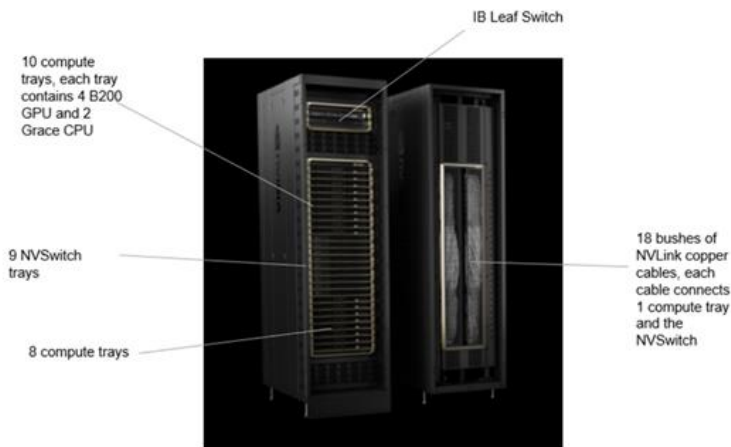
Figure 3: FIT's Server connector & Cable TAM size (US\$ 1.7bn in 2025)

AI Opens up OCP Market Opportunities



Source: Company data, CMBIGM

Figure 4: NVIDIA GH200 topology: DAC copper cables in Level 1 NVLink Switches



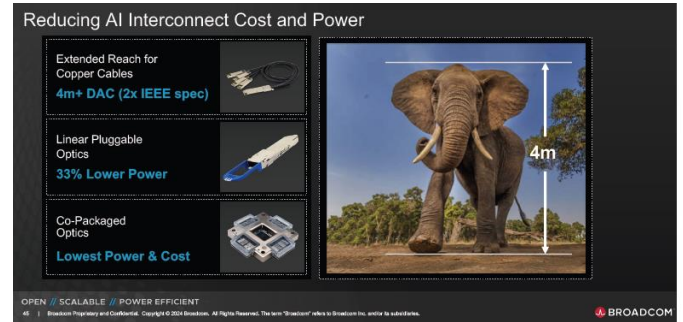
Source: Company data, CMBIGM

Figure 5: FIT unveils 224G data rates for high-speed I/O and near chip connectivity

News Update - FIT Unveils 224G Tech at DesignCon 2024



Source: Company data, CMBIGM

Figure 6: Broadcom's extended reach for copper cables


Source: Company data, CMBIGM

Earnings Revision

Figure 7: CMBIGM estimates vs consensus

(US\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,715	5,412	6,233	4,624	5,071	5,305	2%	7%	17%
Gross profit	956	1,128	1,349	914	1,025	1,107	5%	10%	22%
Operating profit	352	422	529	308	355	390	14%	19%	36%
Net profit	200	255	339	178	224	262	13%	14%	29%
EPS (USD cents)	2.83	3.60	4.78	2.48	3.05	3.60	14%	18%	33%
Gross margin	20.3%	20.8%	21.6%	19.8%	20.2%	20.9%	0.5 ppt	0.6 ppt	0.8 ppt
Operating margin	7.5%	7.8%	8.5%	6.7%	7.0%	7.4%	0.8 ppt	0.8 ppt	1.1 ppt
Net Margin	4.3%	4.7%	5.4%	3.8%	4.4%	4.9%	0.4 ppt	0.3 ppt	0.5 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM earnings revision

(US\$ mn)	NEW			OLD			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,715	5,412	6,233	4,706	5,386	6,201	0%	0%	1%
Gross profit	956	1,128	1,349	931	1,097	1,309	3%	3%	3%
Operating profit	352	422	529	328	394	494	7%	7%	7%
Net profit	200	255	339	183	234	312	10%	9%	8%
EPS (USD cents)	2.83	3.60	4.78	2.58	3.31	4.41	10%	9%	8%
Gross margin	20.3%	20.8%	21.6%	19.8%	20.4%	21.1%	0.5 ppt	0.5 ppt	0.5 ppt
Operating margin	7.5%	7.8%	8.5%	7.0%	7.3%	8.0%	0.5 ppt	0.5 ppt	0.5 ppt
Net Margin	4.3%	4.7%	5.4%	3.9%	4.4%	5.0%	0.4 ppt	0.4 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 9: Revenue breakdown

US\$ 000	FY22	FY23	FY24E	FY25E	FY26E
Computing	819,708	773,285	827,415	934,979	1,056,526
...YoY	2%	-6%	7%	13%	13%
Smartphones	1,261,047	1,044,335	960,788	1,008,828	1,059,269
...YoY	-3%	-17%	-8%	5%	5%
Networking	753,854	424,793	509,752	626,994	783,743
...YoY	-14%	-44%	20%	23%	25%
EV Mobility	152,814	305,098	558,341	694,232	865,122
...YoY	10%	100%	83%	24%	25%
EV business	152,814	137,553	158,186	181,914	209,201
Prettl SWH	-	167,545	400,155	512,318	655,921
System Products	1,335,580	1,415,280	1,579,127	1,853,283	2,160,230
...YoY	20%	6%	12%	17%	17%
Others	207,600	232,759	279,311	293,276	307,940
...YoY	-17%	12%	20%	5%	5%
Total	4,530,603	4,195,550	4,714,734	5,411,592	6,232,830
...YoY	0.9%	-7.4%	12.4%	14.8%	15.2%

Source: Company data, CMBIGM estimates

Figure 10: P&L forecast

US\$ mn	FY22	FY23	FY24E	FY25E	FY26E
Revenue	4,531	4,196	4,715	5,412	6,233
...YoY	0.9%	-7.4%	12.4%	14.8%	15.2%
Cost of sales	-3,763	(3,388)	(3,759)	(4,284)	(4,884)
Gross profit	768	807	956	1,128	1,349
GPM (%)	17%	19%	20%	21%	22%
...YoY	14.1%	5.1%	18.5%	18.0%	19.6%
SG&A	-223	(295)	(325)	(373)	(430)
...% of rev	-4.9%	-7.0%	-6.9%	-6.9%	-6.9%
R&D	-296	(308)	(342)	(392)	(452)
...% of rev	-6.5%	-7.3%	-7.3%	-7.3%	-7.3%
Operating profit	307	263	352	422	529
OPM (%)	6.8%	6.3%	7.5%	7.8%	8.5%
...YoY	74.0%	-14.5%	33.7%	19.9%	25.5%
Net profit	170	129	200	255	339
NPM (%)	3.7%	3.1%	4.3%	4.7%	5.4%
...YoY	23.2%	-24.0%	55.4%	27.4%	32.7%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.42

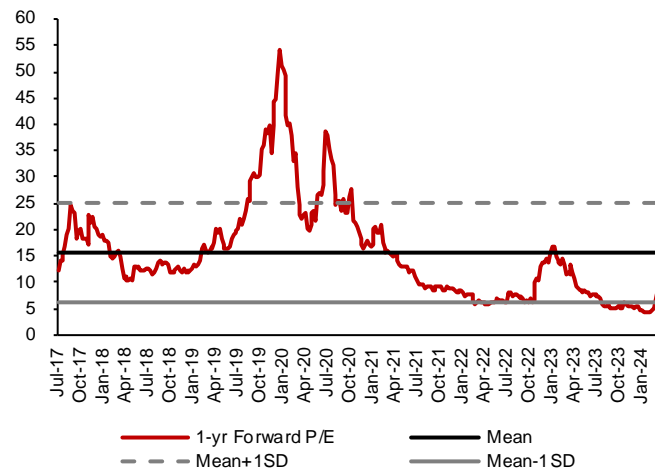
Our new 12m TP of HK\$ 2.42 is based on 11x FY24E P/E (33% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and probability recovery. Trading at 9.2x/7.2x FY24/25E P/E, we think risk-reward is attractive. Upcoming catalysts include TWS product shipment progress and AI server related product design wins.

Figure 11: 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	44,254	143.31	NA	NA	21.4	18.9	4.0	3.3	19.1	18.5
Amphenol	APH US	NR	68,635	114.42	NA	NA	38.6	34.7	8.5	7.2	24.4	22.8
Fabrinet	FN US	NR	7,158	197.14	NA	NA	25.9	23.7	4.8	4.2	20.6	18.2
Aviat	6807 JP	NR	1,554	2547	NA	NA	15.0	18.9	1.4	1.2	9.4	6.9
Hirose	6806 JP	NR	3,716	15510	NA	NA	15.3	20.2	1.5	1.5	10.1	7.5
Luxshare	002475 CH	BUY	30,247	30.47	47.0	54%	19.7	15.5	2.1	1.9	10.9	12.3
Cheng Uei	2392 TT	NR	726	45.15	NA	NA	10.8	9.6	0.9	0.9	8.1	9.1
Foxconn	2354 TT	NR	2,606	58.70	NA	NA	13.5	10.9	0.5	0.5	5.8	7.0
Hon Hai	2317 TT	NR	63,298	145.50	NA	NA	15.3	12.9	1.3	1.2	8.8	9.5
Average							19.5	18.4	2.8	2.4	13.0	12.4
China technology												
FIT Hon Teng	6088 HK	BUY	1,892	2.03	2.42	19%	10.5	9.2	0.5	0.7	5.4	7.9
AAC Tech	2018 HK	HOLD	3,708	24.20	22.4	-7%	34.5	18.9	1.1	1.1	3.3	6.0
Sunny Optical	2382 HK	HOLD	6,030	43.00	47.3	10%	38.2	31.1	1.8	1.7	4.8	5.6
Tongda	698 HK	BUY	93	0.08	0.2	127%	4.2	2.6	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	8,498	29.50	45.9	55%	15.1	11.1	2.0	1.7	13.4	15.7
Q tech	1478 HK	BUY	459	3.03	3.6	19%	10.9	5.7	0.6	0.6	5.9	10.3
TK Group	2283 HK	BUY	159	1.49	3.1	107%	5.3	3.9	0.7	0.6	13.3	16.3
YOFC	6869 HK	NR	2,117	9.27	NA	NA	5.2	5.5	0.6	0.5	11.0	10.9
Cowell	1415 HK	NR	2,000	18.34	NA	NA	30.5	18.2	4.7	3.8	14.4	22.0
Average							17.6	11.9	1.4	1.2	8.2	10.8

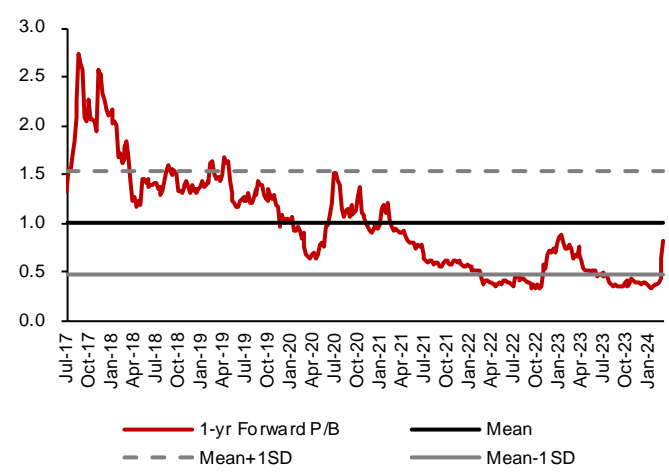
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/E band



Source: Company data, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	4,490	4,531	4,196	4,715	5,412	6,233
Cost of goods sold	(3,817)	(3,763)	(3,388)	(3,759)	(4,284)	(4,884)
Gross profit	673	768	807	956	1,128	1,349
Selling expense	(105)	(93)	(105)	(118)	(135)	(156)
Admin expense	(161)	(130)	(191)	(207)	(238)	(274)
R&D expense	(301)	(296)	(308)	(342)	(392)	(452)
Others	70	58	61	63	60	62
Operating profit	177	307	263	352	422	529
Share of (losses)/profits of associates/JV	(8)	(46)	(50)	(50)	(50)	(50)
Interest expense	(2)	(14)	(33)	(33)	(30)	(26)
Pre-tax profit	167	248	179	268	342	454
Income tax	(31)	(78)	(50)	(67)	(85)	(113)
Minority interest	(1)	1	1	1	1	1
Net profit	137	170	130	201	256	340

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	3,034	2,764	3,112	2,899	3,445	4,042
Cash & equivalents	769	914	1,316	903	1,164	1,457
Account receivables	1,033	720	807	909	1,061	1,208
Inventories	982	967	802	901	1,034	1,191
ST bank deposits	98	66	4	4	4	4
Non-current assets	1,973	1,783	1,982	2,498	2,426	2,317
PP&E	823	753	900	1,416	1,344	1,235
Deferred income tax	133	131	126	126	126	126
Investment in JVs & assos	172	123	73	73	73	73
Intangibles	634	601	700	700	700	700
Other non-current assets	211	175	182	182	182	182
Total assets	5,007	4,547	5,094	5,397	5,871	6,359
Current liabilities	1,937	1,539	2,563	2,666	2,884	3,031
Short-term borrowings	690	453	1,383	1,383	1,383	1,383
Account payables	1,138	971	1,095	1,197	1,415	1,563
Tax payable	94	98	70	70	70	70
Other current liabilities	15	18	17	17	17	17
Non-current liabilities	674	661	93	93	93	93
Long-term borrowings	576	575	0	0	0	0
Obligations under finance leases	46	43	41	41	41	41
Other non-current liabilities	52	43	52	52	52	52
Total liabilities	2,611	2,200	2,656	2,758	2,976	3,124
Share capital	139	142	142	142	142	142
Other reserves	2,348	2,295	2,384	2,586	2,842	3,182
Total shareholders equity	2,396	2,347	2,437	2,639	2,895	3,235
Minority interest	1	2	3	3	3	3
Total equity and liabilities	5,007	4,547	5,094	5,397	5,871	6,359

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	167	248	179	268	342	454
Depreciation & amortization	251	232	345	434	472	509
Tax paid	(91)	(79)	(50)	(67)	(85)	(113)
Change in working capital	(257)	93	201	(99)	(67)	(156)
Others	15	62	0	0	0	0
Net cash from operations	85	556	676	537	661	693
Investing						
Capital expenditure	(216)	(113)	(800)	(950)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(4)	47	0	0	0	0
Net cash from investing	(220)	(66)	(800)	(950)	(400)	(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)	(2)	0	0	0	0
Others	121	(268)	0	0	0	0
Net cash from financing	120	(270)	0	0	0	0
Net change in cash						
Cash at the beginning of the year	766	769	914	1,316	903	1,164
Exchange difference	19	(75)	0	0	0	0
Cash at the end of the year	769	914	1,316	903	1,164	1,457
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.1%	0.9%	(7.4%)	12.4%	14.8%	15.2%
Gross profit	16.1%	14.1%	5.1%	18.5%	18.0%	19.6%
Operating profit	41.6%	74.0%	(14.5%)	33.7%	19.9%	25.5%
Net profit	221.3%	24.5%	(23.9%)	55.3%	27.4%	32.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.0%	16.9%	19.2%	20.3%	20.8%	21.6%
Operating margin	3.9%	6.8%	6.3%	7.5%	7.8%	8.5%
Return on equity (ROE)	6.0%	7.2%	5.4%	7.9%	9.3%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	na	na	0.0	0.0	0.0	na
Current ratio (x)	1.6	1.8	1.2	1.1	1.2	1.3
Receivable turnover days	84.0	58.0	70.2	70.4	71.6	70.7
Inventory turnover days	93.9	93.8	86.4	87.5	88.1	89.0
Payable turnover days	108.8	94.2	117.9	116.2	120.5	116.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	13.4	6.6	10.5	9.2	7.2	5.4
P/B	0.8	0.5	0.5	0.7	0.6	0.6
Div yield (%)	164.4	0.0	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
SELL	: Stock with potential loss of over 10% over next 12 months
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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