

FIT Hon Teng (6088 HK)

Weak FY20 priced in; Belkin/PC/EV demand on track

FIT announced FY20E profit warning with earnings decline of 50%+ YoY, which is 27%/26% below our/consensus estimates, mainly due to COVID-19 impact, fair value changes and higher income tax expense in 4Q20E. With 40% sales exposure to Apple, FIT's 4Q20 NP of 38% YoY decline was a result of removal of in-box headphones in iPhone 12 (US\$200mn in FY20E), in our view. We believe recent 30% stock correction has priced in FY20E weakness, and strong PC WFH demand, Belkin's new TWS/wireless products and EV momentum will drive earnings recovery of 76%/16% YoY in FY21/22E. Maintain BUY with new TP HK\$3.63 based on same 15x FY21E P/E (5-yr hist. avg.).

- FY20 results below on higher 4Q expense; PC/Belkin recovery offset by iPhone earphone removal.** We believe elimination of in-box iPhone headphones, FV changes and higher tax expense are major reasons for FY20 earnings miss, which offset strong WFH-driven PC demand and Belkin recovery in 2H20E. For FY20E, we estimate PC/auto/connected home grew 8%/13%/6% YoY, while mobile (iPhone earphone)/communications/smart accessories declined 10%/10%/6% YoY. For 4Q20E, we estimate net profit dropped 13%/38% YoY, compared to NP decline of -21%/-66%/-98% YoY in 3Q/2Q/1Q20.
- Outlook: New product launches and improving profitability.** Looking into 2021, in addition to PC/Belkin's continued recovery and EV solutions strength, we expect FIT to accelerate 5G/smart home product launches, such as 5G handset antenna, backplanes in base stations and Belkin's wireless/ audio (TWS/speakers). In particular, we expect better revenue mix with less iPhone earphone/optical modules will boost profitability and drive earnings recovery in FY21E. We expect FIT's earnings to rebound 76%/16% YoY in FY21/22E.
- Attractive risk/reward; Reiterate BUY with new TP of HK\$3.63.** We cut our FY20-22E EPS by 6-27% to reflect FY20 results and better GPM on improving revenue mix (less earphone, optical modules). Our new TP of HK\$3.63 is based on same 15x FY21E P/E (in-line with 5-year hist. avg.). We estimate 43% EPS FY20-22E CAGR, backed by 3% revenue CAGR and NPM recovery to 5.4% in FY22E (vs 2.8% in FY20E). Trading at 11.4x FY21E P/E (1-sd below avg), we think risk-reward is attractive. Upcoming catalysts include new products from Belkin and improving margins.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (US\$ mn)	4,006	4,372	4,174	4,137	4,450
YoY growth (%)	17.9	9.2	(4.5)	(0.9)	7.6
Net income (US\$ mn)	234	235	118	208	241
EPS (US\$ cents)	3.50	3.57	1.77	3.11	3.61
YoY growth (%)	18.8	1.9	(50.4)	75.7	16.1
Consensus EPS (US\$ cents)	NA	NA	2.25	3.05	3.56
P/E (x)	10.1	9.9	20.0	11.4	9.8
P/B (x)	1.2	1.1	1.1	1.0	0.9
Yield (%)	2.6	0.0	1.1	1.9	2.2
ROE (%)	12.0	11.3	5.5	8.9	9.6
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.63
(Previous TP	HK\$4.10)
Up/Downside	+28.0%
Current Price	HK\$2.83

China Technology Sector

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Stock Data	
Mkt. Cap. (HK\$mn)	19,506
Avg. 3mths t/o (HK\$mn)	118.75
52W High/Low (HK\$)	4.76/ 1.56
Total Issued Shares (mn)	6,893

Source: Bloomberg

Shareholding Structure	
Foxconn Far East Ltd	76.92%
Lu Sung-Ching	6.40%

Source: HKEX

Share Performance		
	Absolute	Relative
1-mth	-23.7%	-22.6%
3-mth	10.8%	2.5%
6-mth	1.4%	-10.8%

Source: Bloomberg



Source: Bloomberg

Auditor: Pricewaterhouse Coopers

- Related Reports:**
- Weak 1H20 in-line; 2H recovery on Belkin/iPhone – 13 Aug 2020
 - Major overhang removed; Lift TP for 2H recovery – 9 Jul 2020
 - CMBI Tech Virtual Corporate Day takeaways - 18 Jun 2020

Results Review

Figure 1: FY20E results review

US\$ mn	FY19	FY20E	YoY	CMBIS	Diff (%)	Consensus	Diff (%)
Revenue	4,372	4,174	-5%	4,303	-3%	4,319	-3%
Gross profit	754	618	-18%	638	-3%	646	-4%
Operating profit	275	150	-46%	190	-21%	197	-24%
Net profit	235	118	-50%	161	-27%	159	-26%
EPS (US\$ cents)	3.57	1.77	-50%	2.42	-27%	2.25	-21%
Gross margin	17.2%	14.8%	-2.4ppt	14.8%	2.4ppt	15.0%	-0.1ppt
Operating margin	6.3%	3.6%	-2.7ppt	4.4%	1.9ppt	4.6%	-0.1ppt
Net margin	5.4%	2.8%	-2.6ppt	3.8%	1.6ppt	3.7%	0.1ppt

Source: Company data, CMBIS estimates

Earnings Revision

Figure 2: CMBIS earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	4,174	4,137	4,450	4,303	4,827	5,145	-3%	-14%	-14%
Gross profit	618	671	741	638	759	815	-3%	-12%	-9%
Operating profit	150	245	283	190	271	295	-21%	-10%	-4%
Net profit	118	208	241	161	235	257	-27%	-12%	-6%
EPS (US\$ cents)	1.77	3.11	3.61	2.42	3.52	3.85	-27%	-12%	-6%
Gross margin	14.8%	16.2%	16.7%	14.8%	15.7%	15.8%	0 ppt	0.5 ppt	0.8 ppt
Operating margin	3.6%	5.9%	6.4%	4.4%	5.6%	5.7%	-0.8 ppt	0.3 ppt	0.6 ppt
Net Margin	2.8%	5.0%	5.4%	3.8%	4.9%	5.0%	-0.9 ppt	0.2 ppt	0.4 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

(US\$ mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	4,174	4,137	4,450	4,319	4,538	4,795	-3%	-9%	-7%
Gross profit	618	671	741	646	718	762	-4%	-6%	-3%
Operating profit	150	245	283	197	256	285	-24%	-4%	-1%
Net profit	118	208	241	159	211	234	-26%	-1%	3%
EPS (US\$ cents)	1.77	3.11	3.61	2.25	3.05	3.56	-21%	2%	2%
Gross margin	14.8%	16.2%	16.7%	15.0%	15.8%	15.9%	-0.1 ppt	0.4 ppt	0.8 ppt
Operating margin	3.6%	5.9%	6.4%	4.6%	5.6%	5.9%	-1 ppt	0.3 ppt	0.4 ppt
Net Margin	2.8%	5.0%	5.4%	3.7%	4.6%	4.9%	-0.9 ppt	0.4 ppt	0.5 ppt

Source: Company data, CMBIS estimates

Figure 4: P&L forecast

US\$ mn	FY18	FY19	1H20	2H20E	FY20E	FY21E	FY22E
Revenue	4,006	4,372	1,917	2,257	4,174	4,137	4,450
...YoY	17.9%	9.2%	-0.1%	-8.0%	-4.5%	-0.9%	7.6%
Cost of sales	(3,298)	(3,618)	(1,655)	(1,900)	(3,556)	(3,465)	(3,709)
Gross profit	708	754	261	357	618	671	741
GPM (%)	18%	17%	14%	16%	15%	16%	17%
...YoY	24.3%	6.5%	-30.6%	-5.4%	-18.1%	8.7%	10.3%
 SG&A	 (212)	 (269)	 (139)	 (122)	 (261)	 (244)	 (263)
...% of rev	-5.3%	-6.2%	-7.3%	-5.4%	-6.3%	-5.9%	-5.9%
R&D	(227)	(250)	(115)	(117)	(233)	(223)	(240)
...% of rev	-5.7%	-5.7%	-6.0%	-5.2%	-5.6%	-5.4%	-5.4%
Operating profit	309	275	32	118	150	245	283
OPM (%)	7.7%	6.3%	1.7%	5.2%	3.6%	5.9%	6.4%
...YoY	40.4%	-10.8%	-73.8%	-23.0%	-45.6%	63.8%	15.2%
 Net profit	 234	 235	 22	 96	 118	 208	 241
NPM (%)	5.8%	5.4%	1.2%	4.3%	2.8%	5.0%	5.4%
...YoY	29.6%	0.6%	-78.2%	-28.0%	-49.8%	75.7%	16.1%

Source: Company data, CMBIS estimates

Figure 5: Revenue breakdown

US\$ mn	FY18	FY19E	1H20	2H20E	FY20E	FY21E	FY22E
Computers and consumer electronics	934	795	378	480	858	927	973
...YoY	11%	-15%	6%	10%	8%	8%	5%
Mobile and wireless devices	1,712	1,739	766	801	1,567	1,260	1,290
...YoY	9%	2%	14%	-25%	-10%	-20%	2%
Communications infrastructure	939	885	404	392	795	832	872
...YoY	8%	-6%	-8%	-12%	-10%	5%	5%
Automotive, industrial and medical	80	129	66	81	146	190	247
...YoY	38%	62%	6%	20%	13%	30%	30%
Connected home	37	266	120	163	283	325	374
...YoY	367%	622%	-3%	15%	6%	15%	15%
Smart accessories	304	559	183	341	524	603	693
...YoY	387%	84%	-30%	15%	-6%	15%	15%
Total	4,006	4,372	1,917	2,257	4,174	4,137	4,450
...YoY	17.9%	9.2%	-0.1%	-8.0%	-4.5%	-0.9%	7.6%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK\$3.63

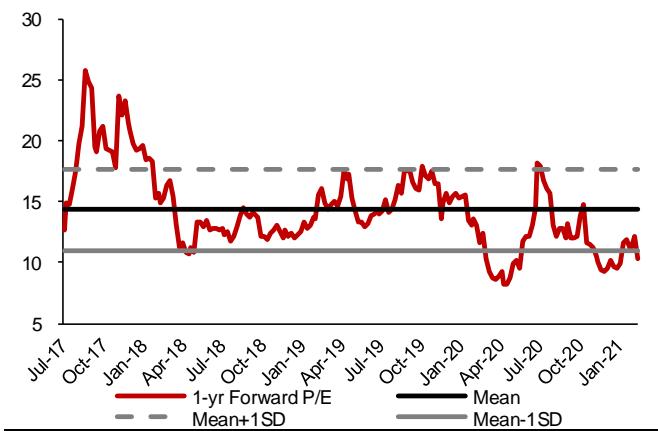
Our new 12m TP of HK\$ 3.63 is based on same 15x FY21E P/E (5-yr hist. avg.) given post-COVID-19 earnings recovery. We estimate 43% EPS FY20-22E CAGR, backed by 3% sales CAGR and improving NPM to 5.4% in FY22E (vs 2.8% in FY20E) on better product mix. Upcoming catalysts include new products from Belkin 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 (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Global Connectors												
TE	TEL US	NR	43,025	130.03	NA	NA	32.8	22.0	4.7	4.2	10.5	19.4
Amphenol	APH US	NR	37,651	125.68	NA	NA	34.7	29.2	7.4	6.5	23.5	24.0
Fabrinet	FN US	NR	3,257	88.33	NA	NA	24.2	19.7	3.4	2.9	15.3	16.1
Aviat	6807 JP	NR	1,491	1723.00	NA	NA	15.6	32.9	1.1	1.1	7.5	3.4
Hirose	6806 JP	NR	5,636	15750.00	NA	NA	35.4	30.1	1.8	1.8	5.3	6.2
Luxshare	002475 CH	Buy	51,535	47.60	74.2	56%	35.8	26.9	11.7	9.0	25.2	25.8
Cheng Uei	2392 TT	NR	863	46.95	NA	NA	9.1	8.8	1.0	0.9	11.2	10.7
Foxconn	2354 TT	NR	3,552	70.00	NA	NA	13.8	13.0	0.9	0.9	6.3	6.3
Hon Hai	2317 TT	NR	55,699	112.00	NA	NA	14.5	11.8	1.2	1.1	8.1	9.6
Average							24.0	21.6	3.7	3.2	10.4	14.8
China technology												
FIT Hon Teng	6088 HK	Buy	2,515	2.83	3.63	28%	20.0	11.4	1.1	1.0	5.5	8.9
AAC Tech	2018 HK	Hold	6,606	42.40	43.2	2%	34.9	23.3	2.3	2.3	6.5	9.3
Sunny Optical	2382 HK	Buy	28,308	200.20	146.1*	NA	45.8	33.8	15.2	11.9	26.0	27.1
Tongda	698 HK	Buy	501	0.60	0.6*	NA	12.2	7.5	0.6	0.6	4.7	7.7
BYDE	285 HK	Buy	13,013	44.80	49.5	10%	16.5	14.7	5.3	4.1	25.1	22.4
Q tech	1478 HK	Buy	2,303	15.24	16.6	9%	20.1	16.6	5.4	4.4	22.0	21.8
TK Group	2283 HK	Buy	345	3.21	2.3*	NA	5.8	5.0	2.1	2.1	35.7	41.7
FIH	2038 HK	NR	1,188	1.14	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	691	1.63	NA	NA	-	-	-	-	-	-
YOFC	6869 HK	NR	2,044	10.90	NA	NA	10.3	9.3	0.7	0.7	7.1	7.0
Ju Teng	3336 HK	NR	396	2.56	NA	NA	7.8	8.8	0.5	0.5	6.4	5.3
Cowell	1415 HK	NR	662	6.15	NA	NA	11.2	9.1	2.6	2.4	21.1	29.5
Average							18.5	14.0	3.6	3.0	14.5	16.0

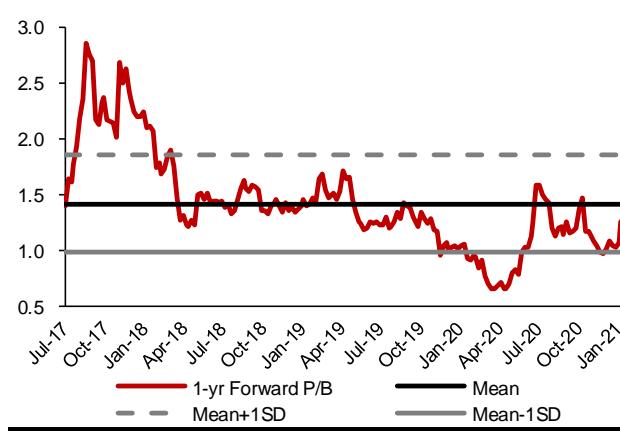
Source: Bloomberg, CMBIS, * TP under review

Figure 7: 12M forward P/E band



Source: Company data, CMBIS

Figure 8: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

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	4,174	4,137	4,450	Profit before taxation	311	266	139	238	277
COGS	(3,298)	(3,618)	(3,556)	(3,465)	(3,709)	Depreciation	201	204	221	239	256
Gross profit	708	754	618	671	741	Change in working capital	248	(152)	177	(180)	155
Selling and marketing	(85)	(111)	(104)	(99)	(107)	Others	(64)	(5)	(21)	(34)	(41)
Administrative	(126)	(159)	(157)	(145)	(156)	Net cash from operating	697	313	516	263	647
R&D	(227)	(250)	(233)	(223)	(240)	Capex	(110)	(180)	(180)	(180)	(180)
Other gain/(loss)	41	39	26	41	44	Other	(837)	(237)	11	12	14
Operating profit	309	275	150	245	283	Net cash from investing	(947)	(417)	(169)	(168)	(166)
Financial cost	3	(7)	(5)	(2)	(0)	Net borrowings	694	(496)	590	79	91
Share associate's profit	(0)	(2)	(5)	(5)	(5)	Dividend paid	(47)	-	(26)	(46)	(53)
Pre-tax profit	311	266	139	238	277	Share issuing					
Tax	(79)	(33)	(24)	(36)	(42)	Other	(72)	432	(14)	(14)	(14)
Minority interest	(1)	(2)	(3)	(5)	(6)	Net cash from financing	575	(64)	550	19	24
Net profit	234	235	118	208	241	Net change in cash	325	(168)	897	114	505
						Cash at beginning of the year	768	1,065	892	1,789	1,903
						Exchange difference	(27)	-	-	-	-
						Cash at the end of the year	1,065	892	1,789	1,903	2,408

Balance sheet

YE 31 Dec (US\$ mn)	FY18	FY19E	FY20E	FY21E	FY22E	YE 31 Dec	FY18	FY19E	FY20E	FY21E	FY22E
Current assets	2,753	2,742	3,527	3,699	4,324	Sales mix (%)					
Cash & equivalents	1,065	892	1,789	1,903	2,408	Consumer electronics	23	18	21	22	22
Account receivables	935	930	850	914	984	Mobile devices	43	40	38	30	29
Inventories	650	703	671	665	715	Comm. infrastructure	23	20	19	20	20
Short-term bank deposits	6	118	118	118	118	Auto, industrial and medical	2	3	4	5	6
						Connected home	1	6	7	8	8
Non-current assets	1,557	1,665	1,624	1,565	1,490	Smart accessories	8	13	13	15	16
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	(4.5)	(0.9)	7.6
Deferred income tax	109	115	115	115	115	Gross profit	24.3	6.5	(18.1)	8.7	10.3
Other non-current assets	52	218	218	218	218	Operating profit	40.4	(10.8)	(45.6)	63.8	15.2
Total assets	4,310	4,407	5,151	5,265	5,814	Net profit	29.6	0.6	(49.8)	75.7	16.1
Current liabilities	2,269	1,662	2,317	2,273	2,640	Profit & loss ratio (%)					
ST borrowings	989	494	1,083	1,162	1,253	Gross margin	17.7	17.2	14.8	16.2	16.7
Account payables	1,191	1,086	1,152	1,029	1,305	Operating margin	7.7	6.3	3.6	5.9	6.4
Tax payable	83	63	63	63	63	Net profit margin	5.8	5.4	2.8	5.0	5.4
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)					
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	2,985	2,941	3,307	Receivable turnover days	85	78	74	81	81
Share capital	132	134	134	134	134	Inventory turnover days	72	71	69	70	70
Reserves	1,875	2,025	2,117	2,279	2,467	Payable turnover days	132	110	118	108	128
Non-controlling interests	13	11	8	3	(3)						
Shareholders' equity	1,947	2,077	2,167	2,324	2,506	Profitability (%)					
Total equity and liabilities	4,310	4,407	5,151	5,265	5,814	ROE	12.0	11.3	5.5	8.9	9.6
						ROA	5.4	5.3	2.3	3.9	4.1
						Per share data (US\$ cents)					
						EPS	3.50	3.57	1.77	3.11	3.61
						DPS	0.90	0.00	0.39	0.68	0.80

Source: Company data, CMBIS estimates

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