

FIT Hon Teng (6088 HK)

1Q24 in line; Positive on AI server/networking and AirPods ramp-up in 2H24E

FIT Hon Teng posted a solid set of 1Q24 results, in-line with its positive profit alert, and mgmt. reiterated its FY24E guidance (rev +low-double digit YoY, GP +mid-double digit YoY, OPM 5.5%) in earnings call. After hosting post-results NDR call with mgmt. on 10 May, we believe recent stock correction was mainly due to profit taking after a 101% rally in the past three months, and we remain positive on its 2H24E outlook backed by AirPods ramp-up, integration of Voltaira auto electronics business and order wins of AI server/networking products (US\$500-1,000 content value per compute tray). We slightly adjust FY24-26E forecasts to reflect higher GPM and better sales mix offset by higher opex for new products. Reiterate BUY with a new TP of HK\$2.40 based on same 11x FY24E P/E. Catalysts include AirPods shipments and AI server product updates.

- **1Q24 earnings in line.** FIT's 1Q24 revenue of US\$965mn (+12% YoY) and net profit of US\$10.2mn (vs US\$9.3mn of loss in 1Q23), were in line with its earlier positive profit alert, driven by recovery of PC/server markets, solid Voltaira business and a stronger Networking segment. GPM improved 450bps YoY to 20.3% thanks to a better product mix. By segment, EV segment jumped +205% YoY due to the Voltaira merge, while computing segment grew 6% YoY on market recovery and networking segment grew 9% YoY for AI demand and new CPU related products. Despite higher 1Q opex ratio of 17.8% for automotive modules and new audio products, FIT maintained opex ratio target of below 13% for FY25E (vs 14.4% in FY23).
- **AI server update: US\$500-1,000 content value in compute tray.** During the earnings call, mgmt. reiterated AI revenue share of 7-9% in FY24E (vs 1% in FY23), and shared business updates on AI-related products and new CPU platforms in 2H24E, such as certified MCIO, EDSFF, PCIe 6.0 and memory socket products. As for FIT's business opportunity in AI server like GB200 NVL36/72, mgmt. expected US\$500-1,000 content value per compute tray (excl. copper cables) for the latest AI servers in FY24E. Overall, we expect FIT's revenue/net profit to rebound 12%/52% YoY in FY24E.
- **Our FY24-26E EPS are 13-33% above consensus; Reiterate BUY.** We believe FIT's share price correction post 1Q24 results was mainly due to profit taking after a 101% rally in the past three month. Trading at 8.9x/6.7x FY24/25E P/E, we think the valuation is extremely attractive given multiple growth drivers into FY24-26E. Maintain BUY with new TP of HK\$2.40

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)	170.1	131.8	199.6	265.7	340.1
YoY growth (%)	24.5	(22.5)	51.4	33.1	28.0
EPS (Reported) (US\$ cents)	2.42	1.85	2.81	3.73	4.78
Consensus EPS (US\$)	0.00	0.00	2.48	3.05	3.60
P/E (x)	10.3	13.5	8.9	6.7	5.2
P/B (x)	0.7	0.7	0.7	0.6	0.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	7.2	5.5	7.9	9.6	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\$2.40**

(Previous TP) **HK\$2.42**

Up/Downside **23.1%**

Current Price **HK\$1.95**

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Stock Data

Mkt Cap (HK\$ mn)	14,170.7
Avg 3 mths t/o (HK\$ mn)	36.0
52w High/Low (HK\$)	2.44/0.90
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

Foxconn Far East Ltd	71.1%
Lu Sung-Ching	5.5%

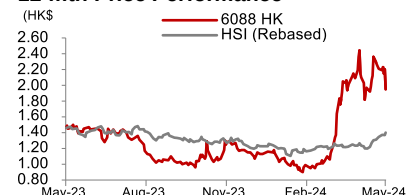
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-20.1%	-27.8%
3-mth	101.0%	66.9%
6-mth	52.3%	38.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1. FIT Hon Teng (6088 HK) - Recent sell-off looks overdone; AirPods production in Vietnam on track in 1H24E - 12th Apr 2024 ([link](#))
2. FIT Hon Teng (6088 HK) - NDR takeaway: Opportunities in US\$ 1.7bn server connector/cable market; Lift TP to HK\$ 2.42 - 26th Mar 2024 ([link](#))
3. FIT Hon Teng (6088 HK) - FY23 in line; upbeat FY24E outlook on AI server/networking, EV and AirPods upside - 14th Mar 2024 ([link](#))
4. FIT Hon Teng (6088 HK) - FY23E preview: earnings recovery on track, multiple growth drivers in FY24/25E - 8th Feb 2024 ([link](#))

1Q24 results review

Figure 1: 1Q24 review

Revenue (US\$ 000)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24
Smartphones	230,000	215,883	305,000	293,452	1,044,335	202,000
...YoY	-20%	-34%	-24%	19%	-17%	-10%
Networking	105,000	113,936	97,000	108,857	424,793	114,000
...YoY	-44%	-34%	-57%	-35%	-44%	9%
Computing	170,000	207,342	211,000	184,943	773,285	180,000
...YoY	-19%	3%	1%	-7%	-6%	6%
EV Mobility	38,000	33,644	133,000	100,454	305,098	116,000
...YoY	-12%	16%	241%	140%	100%	205%
Systems Products	273,000	305,893	376,000	460,387	1,415,280	296,000
...YoY	0%	9%	7%	6%	6%	7%
Others	46,000	45,382	43,000	98,377	232,759	55,000
...YoY	-10%	18%	-16%	47%	12%	17%
Revenue	862,000	922,080	1,165,000	1,246,470	4,195,550	965,056
...YoY	-18%	-12%	-9%	8%	-7%	12%
Net profit	(9,297)	345	54,906	74,063	128,969	10,201
NPM (%)	-1.1%	0.0%	4.7%	5.9%	3%	1.06%
...YoY	-130%	-99%	10%	116%	-24%	n/a

Source: Company data, CMBIGM

Figure 2: Revenue breakdown

(US\$ 000)	FY22	FY23	1H24E	2H24E	FY24E	FY25E
Computing	819,708	773,285	403,929	423,486	827,415	934,979
...YoY	2%	-6%	7%	7%	7%	13%
Smartphones	1,261,047	1,044,335	404,930	555,858	960,788	1,008,828
...YoY	-3%	-17%	-9%	-7%	-8%	5%
Networking	753,854	424,793	239,330	270,422	509,752	626,994
...YoY	-14%	-44%	9%	31%	20%	23%
EV Mobility	152,814	305,098	193,381	364,959	558,341	694,232
...YoY	10%	100%	170%	56%	83%	24%
EV business	152,814	137,553	82,391	75,795	158,186	181,914
Prettl SWH	-	167,545	110,991	289,164	400,155	512,318
System Products	1,335,580	1,415,280	663,072	916,056	1,579,127	1,853,283
...YoY	20%	6%	15%	10%	12%	17%
Others	207,600	232,759	113,997	165,314	279,311	293,276
...YoY	-17%	12%	25%	17%	20%	5%
Total	4,530,603	4,195,550	2,018,638	2,696,095	4,714,734	5,411,592
...YoY	0.9%	-7.4%	13.1%	11.8%	12.4%	14.8%

Source: Company data, CMBIGM estimates

Figure 3: P&L forecast

(US\$ mn)	FY22	FY23	1H24E	2H24E	FY24E	FY25E
Revenue	4,531	4,196	2,019	2,696	4,715	5,412
...YoY	0.9%	-7.4%	13.1%	11.8%	12.4%	14.8%
Cost of sales	-3,763	-3,388	-1,607	-2,124	-3,731	-4,271
Gross profit	768	807	412	572	984	1,140
GPM (%)	17%	19%	20%	21%	21%	21%
...YoY	14.1%	5.1%	45.4%	9.2%	21.9%	15.9%
SG&A	-223	-295	-149	-200	-349	-373
...% of rev	-4.9%	-7.0%	-7.4%	-7.4%	-7.4%	-6.9%
R&D	-296	-308	-157	-201	-358	-392
...% of rev	-6.5%	-7.3%	-7.8%	-7.5%	-7.6%	-7.3%
Operating profit	307	265	129	220	349	434
OPM (%)	6.8%	6.3%	6.4%	8.2%	7.4%	8.0%
...YoY	74.0%	-13.7%	167.4%	1.5%	31.8%	24.3%
Net profit	169	131	67	132	199	265
NPM (%)	3.7%	3.1%	3.3%	4.9%	4.2%	4.9%
...YoY	23.2%	-22.5%	646.5%	-6.0%	51.5%	33.1%

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 4: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,715	5,412	6,233	4,715	5,412	6,233	0%	0%	0%
Gross profit	984	1,140	1,349	956	1,128	1,349	3%	1%	0%
Operating profit	349	434	529	352	422	529	-1%	3%	0%
Net profit	199	265	339	200	255	339	-1%	4%	0%
EPS (USD cents)	2.81	3.73	4.78	2.83	3.60	4.78	-1%	4%	0%
Gross margin	20.9%	21.1%	21.6%	20.3%	20.8%	21.6%	0.6 ppt	0.2 ppt	0 ppt
Operating margin	7.4%	8.0%	8.5%	7.5%	7.8%	8.5%	0 ppt	0.2 ppt	0 ppt
Net Margin	4.2%	4.9%	5.4%	4.3%	4.7%	5.4%	0 ppt	0.2 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 5: 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	984	1,140	1,349	914	1,025	1,107	8%	11%	22%
Operating profit	349	434	529	308	355	390	13%	22%	36%
Net profit	199	265	339	178	224	262	12%	18%	29%
EPS (USD cents)	2.81	3.73	4.78	2.48	3.05	3.60	13%	22%	33%
Gross margin	20.9%	21.1%	21.6%	19.8%	20.2%	20.9%	1.1 ppt	0.9 ppt	0.8 ppt
Operating margin	7.4%	8.0%	8.5%	6.7%	7.0%	7.4%	0.7 ppt	1 ppt	1.1 ppt
Net Margin	4.2%	4.9%	5.4%	3.8%	4.4%	4.9%	0.4 ppt	0.5 ppt	0.5 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.40

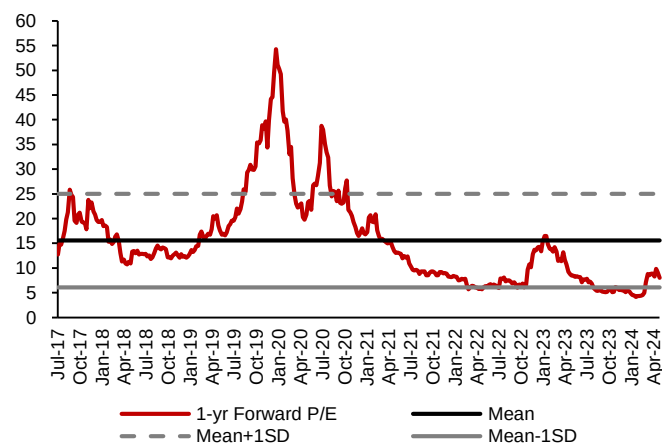
Our new 12m TP of HK\$2.40 is based on the same 11x FY24E P/E (30% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and profitability recovery. Trading at 8.9x/6.7x FY24/25E P/E, we think the stock’s risk-reward is attractive. Upcoming catalysts include continued revenue upside from auto business consolidation, AirPods share gain, boosted connectivity product applications in AI servers 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 (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Global Connectors												
TE	TEL US	NR	44,768	146.19	NA	NA	19.5	17.6	3.6	3.4	18.9	19.3
Amphenol	APH US	NR	76,619	127.57	NA	NA	37.2	33.2	8.0	6.8	24.0	24.0
Fabrinet	FN US	NR	8,051	222.73	NA	NA	25.6	23.6	4.7	4.0	19.2	18.8
Aviat	6807 JP	NR	1,483	2503.00	NA	NA	16.5	14.1	1.2	1.3	7.5	9.8
Hirose	6806 JP	NR	4,370	18785.00	NA	NA	24.4	22.6	1.8	1.7	7.4	7.6
Luxshare	002475 CH	Buy	29,304	29.50	46.6	58%	15.2	12.3	2.5	2.1	16.4	16.9
Foxconn	2354 TT	NR	2,644	60.60	NA	NA	11.2	10.6	0.5	0.5	7.0	7.1
Hon Hai	2317 TT	NR	72,473	169.50	NA	NA	14.9	12.6	1.4	1.3	9.5	10.4
Average							20.5	18.3	3.0	2.6	13.7	14.2
China technology												
FIT Hon Teng	6088 HK	Buy	1,819	1.95	2.40	23%	8.9	6.7	0.7	0.6	7.9	9.6
AAC Tech	2018 HK	Hold	4,164	27.15	22.4	-17%	21.2	17.0	1.2	1.2	5.8	6.9
Sunny Optical	2382 HK	Hold	5,906	42.15	47.3	12%	30.5	22.5	1.7	1.7	5.7	7.4
Tongda	698 HK	Buy	107	0.09	0.1	63%	3.7	3.0	0.1	0.1	3.1	3.8
BYDE	285 HK	Buy	9,545	33.10	45.2	36%	12.4	9.1	3.5	2.8	28.4	30.3
Q tech	1478 HK	Buy	579	3.82	3.9	3%	10.4	7.8	0.8	0.7	7.6	9.4
TK Group	2283 HK	Buy	203	1.90	2.8	47%	5.6	4.8	0.9	0.8	15.3	16.3
YOFC	6869 HK	NR	1,846	8.65	NA	NA	6.3	5.8	0.5	0.5	9.3	9.5
Cowell	1415 HK	NR	2,064	18.90	NA	NA	20.2	11.6	4.0	3.0	21.9	28.4
Average							13.2	9.8	1.5	1.3	11.6	13.5

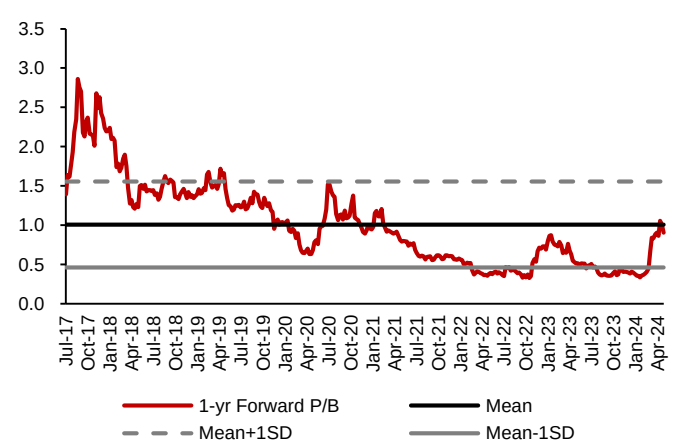
Source: Bloomberg, CMBIGM. *TP under review.

Figure 7: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, Bloomberg, 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)	(3,731)	(4,271)	(4,884)
Gross profit	673	768	807	984	1,140	1,349
Selling expense	(105)	(93)	(105)	(127)	(135)	(156)
Admin expense	(161)	(130)	(191)	(222)	(238)	(274)
R&D expense	(301)	(296)	(308)	(358)	(392)	(452)
Others	70	58	61	73	60	62
Operating profit	177	307	265	349	434	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	182	266	354	454
Income tax	(31)	(78)	(50)	(67)	(89)	(113)
Minority interest	(1)	1	1	1	1	1
Net profit	137	170	132	200	266	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	2,649	2,893	3,022
Short-term borrowings	690	453	1,383	1,383	1,383	1,383
Account payables	1,138	971	1,095	1,180	1,424	1,553
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	2,742	2,986	3,115
Share capital	139	142	142	142	142	142
Other reserves	2,348	2,295	2,384	2,584	2,850	3,190
Total shareholders equity	2,396	2,347	2,437	2,637	2,903	3,243
Minority interest	1	2	3	3	3	3
Total equity and liabilities	5,007	4,547	5,094	5,378	5,888	6,358

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	167	248	182	266	354	454
Depreciation & amortization	251	232	345	434	472	509
Tax paid	(91)	(79)	(50)	(67)	(89)	(113)
Change in working capital	(257)	93	201	(116)	(41)	(175)
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%	21.9%	15.9%	18.3%
Operating profit	41.2%	74.0%	(13.7%)	31.8%	24.3%	21.9%
Net profit	219.3%	24.5%	(22.5%)	51.4%	33.1%	28.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.0%	16.9%	19.2%	20.9%	21.1%	21.6%
Operating margin	3.9%	6.8%	6.3%	7.4%	8.0%	8.5%
Return on equity (ROE)	6.0%	7.2%	5.5%	7.9%	9.6%	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	88.1	88.4	89.0
Payable turnover days	108.8	94.2	117.9	115.4	121.7	116.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	12.3	10.3	13.5	8.9	6.7	5.2
P/B	0.7	0.7	0.7	0.7	0.6	0.5
Div yield (%)	179.5	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

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CMBIGM 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 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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