

FIT Hon Teng (6088 HK)

NDR takeaways: Focus on Belkin/400G in 2020

Summary. We hosted NDR with FIT mgmt. this week, and investors are interested about 1) 400G progress, 2) Belkin's profitability, and 3) manufacturing transition to Vietnam. Overall, we expect a backend loaded 2H19E driven by new products in smart accessories/ connected home/ automotive, despite headwinds in PC/mobile/comm. We expect improving product mix to continue into 2H19E and operating leverage will kick in with cost synergy in Vietnam. Maintain BUY.

- **Double-digit growth revenue guidance on track.** We expect FY19E revenue growth to come from 1) Belkin integration (+200% YoY on full-year consolidation), contributing 23% of sales, 2) auto's strong growth of 80% YoY, 3) mobile decline of 7% YoY given loss of dongle partly offset by Huawei and iPhone share gain, 4) PC to decline 15% YoY on gaming product design changes, and 5) comm. decline of 6% YoY ahead of 5G and 400G ramp.
- **Comm: 400G optical module in 2020 and copper recovery in 2H19.** Following 1H19 decline of 3% YoY due to soft socket demands with servers (Dell/HP) destocking, mgmt. expected copper demand to recover in 2H19E, while challenges in optical will persist before 400G optical modules gain traction from datacenters in 4Q19. As one of two first-movers in 400G (another is InnoLight), FIT is well-prepared to ride on rising demand for high-performance computing of Amazon with mass production in 4Q19E.
- **Belkin: new roll-outs with improving profitability.** We forecast Belkin's integration will evolve as new growth driver and achieve 10% CAGR in FY19-21E, supported by 1) well-established product portfolio with new debuts, such as Wi-Fi 6 and audio products in 2H19E, 2) improving profitability with production ramp in Vietnam to boost 70%+ in-house manufacture (vs 40% before M&A), and 3) software applications on Linksys Velop platform with enhanced features (incl. security/motion sensing/health & wellness).
- **Automobile: actively seeking M&A and stepped-up R&D efforts.** After doubled revenue in 1H19, and mgmt. expects newly acquired biz, BMW's smart key and JV with Sharp, will continue to serve as major contributors of auto segment. Looking ahead, FIT will prioritize M&A opportunities for auto biz and will strengthen R&D to capture infotainment/ADAS opportunities.
- **Backend loaded 2H19E; Belkin/400G launch as catalysts.** We estimate 2H19 sales /NP growth of 9%/23% YoY. Trading at 9.2x FY20E P/E, the stock is attractive with 14% FY19-21E EPS CAGR. Our TP of HK\$ 3.77 is based on 11x FY20E P/E. Catalysts include Belkin/400G launches in 2H19E.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (US\$ mn)	3,399	4,006	4,408	4,900	5,464
YoY growth (%)	18.0	17.9	10.0	11.2	11.5
Net income (US\$ mn)	180	234	258	294	332
EPS (US\$ cents)	3.0	3.5	3.9	4.4	5.0
YoY growth (%)	(2.1)	18.8	10.1	14.1	13.0
P/E (x)	13.8	11.6	10.5	9.2	8.2
P/B (x)	1.3	1.4	1.3	1.1	1.0
Yield (%)	1.6	2.2	2.1	2.4	2.7
ROE (%)	10	12	12	12	13
Net gearing (%)	Net cash				

Source: Company data, CMBIS estimate

BUY (Maintain)

Target Price **HK\$3.77**
 Up/Downside **+19.3%**
 Current Price **HK\$3.16**

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Stock Data

Mkt. Cap. (HK\$m)	21,400
Avg. 3mths t/o (HK\$m)	12.84
52W High/Low (HK\$)	5.05/2.97
Total Issued Shares (mn)	6,743.4

Source: Bloomberg

Shareholding Structure

Foxconn Far East Ltd	76.48%
Franklin Resources Inc	2.03%
Lu Sung-Ching	1.41%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.6%	12.7%
3-mth	-11.5%	-1.9%
6-mth	-12.7%	-4.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pricewaterhouse Coopers

Related Reports:

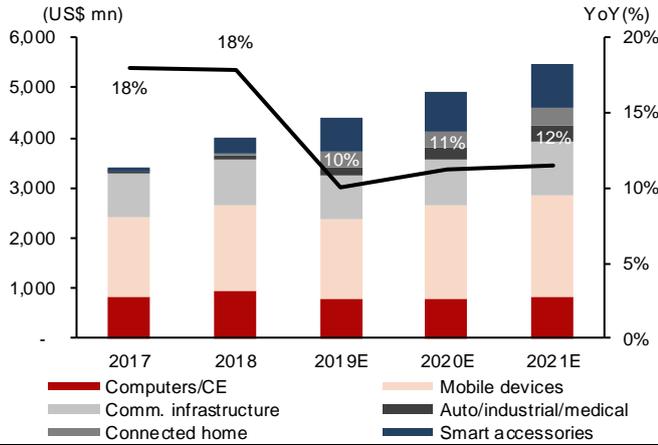
1. FIT (6088 HK, Buy) – Belkin/Vietnam synergy on track; Limited trade war impact – 14 Aug 2019
2. FIT (6088 HK, Buy) – 1H19 preview – 12 Aug 2019

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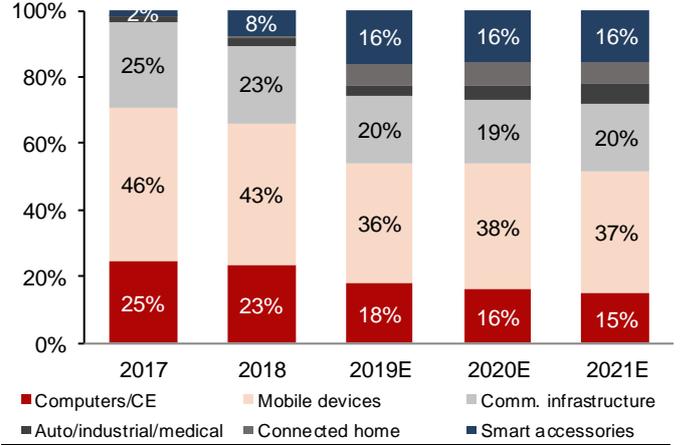
Focus Charts

Figure 1: FIT revenue trend forecast



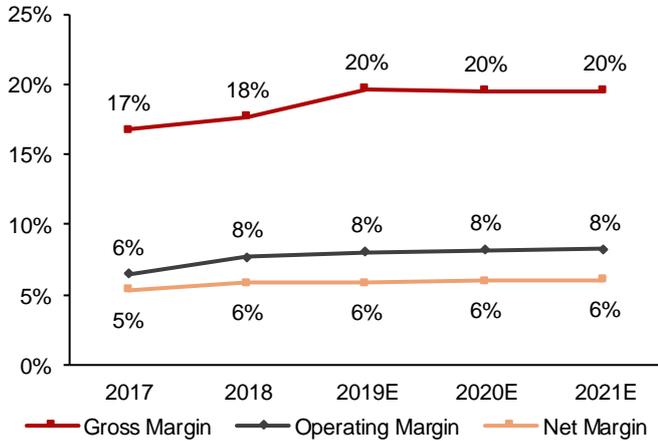
Source: Company data, CMBIS estimates

Figure 2: FIT revenue mix forecast



Source: Company data, CMBIS estimates

Figure 3: FIT margin trend forecast



Source: Company data, CMBIS estimates

Figure 4: Short-term/long-term strategy



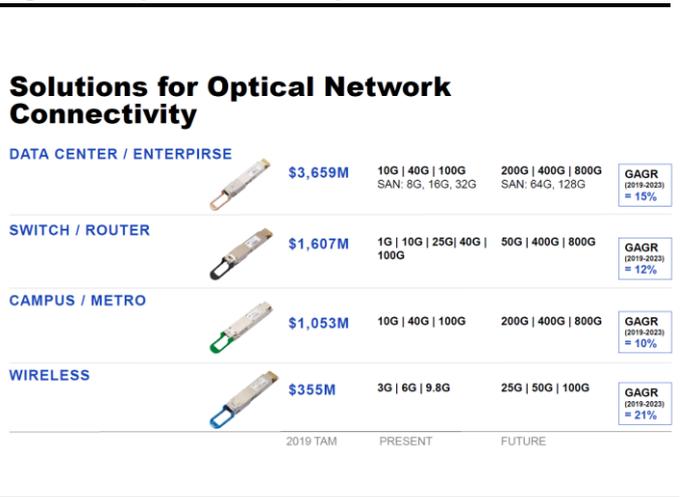
Source: Company data, CMBIS estimates

Figure 5: Belkin's connected things products



Source: Company data, CMBIS

Figure 6: Optical modules portfolio



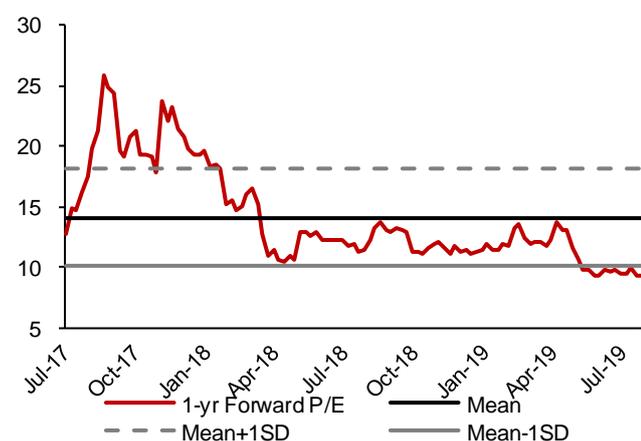
Source: Company data, CMBIS

Figure 7: Peers' valuation

Company	Ticker	Rating	Market US\$(mn)	Price (LC)	TP (LC)	Up/ -side	P/E (x)		P/B (x)		ROE (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Global connectors												
TE	TEL US	NR	29,559	87.99	NA	NA	15.9	15.2	2.8	2.7	17.5	17.5
Amphenol	APH US	NR	25,363	85.27	NA	NA	23.8	21.5	6.4	5.5	26.4	26.2
Delphi	DLPH US	NR	1,227	14.08	NA	NA	5.1	4.5	2.7	1.9	57.1	46.5
Finisar	FNSR US	NR	2,680	22.36	NA	NA	23.8	18.7	1.6	1.5	7.1	8.0
Fabrinet	FN US	NR	1,940	52.66	NA	NA	14.1	13.3	2.4	-	17.4	15.8
Aviat	6807 JP	NR	1,233	1418.00	NA	NA	10.1	11.2	1.0	0.9	10.4	8.5
Hirose	6806 JP	NR	4,233	11710.00	NA	NA	23.0	24.3	1.4	1.4	6.1	5.7
Luxshare	002475 CH	NR	17,994	23.65	NA	NA	30.9	23.4	6.2	5.0	20.9	22.5
Cheng Uei	2392 TT	NR	516	31.60	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	2,769	61.40	NA	NA	10.2	9.7	0.7	0.7	8.0	7.9
Hon Hai	2317 TT	NR	31,645	71.60	NA	NA	8.9	8.8	0.8	0.7	8.7	8.6
Average							16.6	15.1	2.6	2.3	18.0	16.7
HK-listed components												
FIT Hon Teng	6088 HK	Buy	2,729	3.16	3.77	19%	10.5	9.2	1.3	1.1	12.1	12.2
AAC Tech	2018 HK	Sell	5,556	36.05	43.3	20%	15.0	12.6	2.2	2.2	15.0	17.8
Sunny Optical	2382 HK	Buy	13,346	95.40	114.0	19%	27.3	19.8	7.9	6.2	28.8	31.2
Tongda	698 HK	Buy	401	0.49	0.8	57%	3.8	3.2	0.4	0.4	11.7	12.8
BYDE	285 HK	Hold	3,351	11.66	11.8	1%	11.2	9.9	1.3	1.2	12.0	12.3
Q tech	1478 HK	Buy	1,090	7.48	9.5	27%	18.4	14.2	3.0	2.6	16.4	18.0
TK Group	2283 HK	Buy	293	2.76	4.5	63%	6.0	5.0	1.8	1.8	29.7	35.7
FIH	2038 HK	NR	974	0.93	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	399	0.95	NA	NA	4.1	4.2	0.4	0.3	5.1	8.3
SMIC	981 HK	NR	5,348	8.30	NA	NA	66.2	52.9	0.9	0.9	1.2	1.6
YOFC	6869 HK	NR	2,420	12.86	NA	NA	10.4	9.1	1.0	1.0	10.2	9.6
O-NET	877 HK	NR	398	3.80	NA	NA	9.6	8.1	1.2	1.0	12.5	13.3
Ju Teng	3336 HK	NR	250	1.68	NA	NA	6.8	4.5	0.3	0.3	4.4	6.5
Cowell	1415 HK	NR	134	1.26	NA	NA	8.9	6.2	0.4	0.4	5.8	5.8
Average							15.2	12.2	1.7	1.5	12.7	14.2

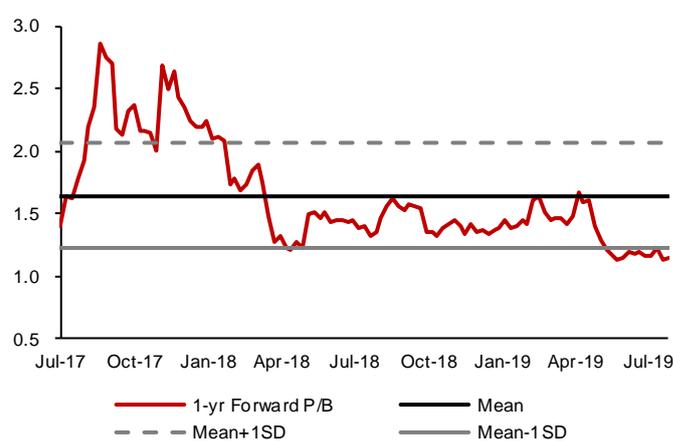
Source: Bloomberg, CMBIS

Figure 8: 12M forward P/E band



Source: Company data, CMBIS

Figure 9: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E	Cash flow summary	YE 31 Dec (US\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	3,399	4,006	4,408	4,900	5,464	Profit before taxation	225	311	343	392	443	
COGS	(2,829)	(3,298)	(3,541)	(3,944)	(4,395)	Depreciation	184	201	204	221	239	
Gross profit	569	708	867	956	1,068	Change in working capital	(223)	248	(415)	293	(445)	
Selling and marketing	(83)	(85)	(123)	(137)	(153)	Others	(29)	(64)	(74)	(88)	(102)	
Administrative	(81)	(126)	(163)	(171)	(191)	Net cash from operating	156	697	59	818	134	
R&D	(190)	(227)	(260)	(284)	(317)	Capex	(111)	(110)	(180)	(180)	(180)	
Other gain/(loss)	4	41	35	39	44	Other	59	(837)	18	20	22	
Operating profit	220	309	356	402	451	Net cash from investing	(52)	(947)	(162)	(160)	(158)	
Financial cost	5	3	(12)	(10)	(8)	Net borrowings	(119)	694	85	115	129	
Share associate's profit	(0)	(0)	(0)	(0)	(0)	Dividend paid	(41)	(47)	(57)	(65)	(73)	
Pre-tax profit	225	311	343	392	443	Share issuing		375	(72)	(30)	(30)	(30)
Tax	(44)	(79)	(86)	(98)	(111)	Other	375	(72)	(30)	(30)	(30)	
Minority interest	(0)	(1)	0	0	0	Net cash from financing	215	575	(2)	20	26	
Net profit	180	234	258	294	332	Net change in cash	319	325	(105)	678	2	
						Cash at beginning of the year	415	768	1,065	960	1,638	
						Exchange difference	34	(27)				
						Cash at the end of the year	768	1,065	960	1,638	1,640	

Balance sheet

YE 31 Dec (US\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E	Key ratios	YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	2,412	2,753	2,964	3,708	4,087	Sales mix (%)						
Cash & equivalents	768	1,065	960	1,638	1,640	Consumer electronics	25	23	18	16	15	
Account receivables	993	935	1,187	1,172	1,458	Mobile devices	46	43	36	38	37	
Inventories	528	650	715	795	886	Comm. infrastructure	25	23	20	19	20	
Short-term bank deposits	49	6	6	6	6	Auto, industrial and medical	2	2	3	4	6	
						Connected home	0	1	7	7	7	
Non-current assets	769	1,557	1,533	1,492	1,433	Smart accessories	2	8	16	16	16	
PPE	676	599	575	534	476							
Intangibles	14	791	791	791	791	Growth (%)						
Interests in associates	7	6	6	6	6	Revenue	18.0	17.9	10.0	11.2	11.5	
Deferred income tax	28	109	109	109	109	Gross profit	16.1	24.3	22.4	10.3	11.8	
Other non-current assets	44	52	52	52	52	Operating profit	4.7	40.4	15.3	13.1	12.1	
Total assets	3,181	4,310	4,497	5,199	5,520	Net profit	7.1	29.6	10.1	14.1	13.0	
Current liabilities	1,277	2,269	2,256	2,728	2,791	Profit & loss ratio (%)						
ST borrowings	296	989	1,074	1,189	1,318	Gross margin	16.8	17.7	19.7	19.5	19.6	
Account payables	936	1,191	1,093	1,451	1,384	Operating margin	6.5	7.7	8.1	8.2	8.3	
Tax payable	45	83	83	83	83	Net profit margin	5.3	5.8	5.8	6.0	6.1	
Other current liabilities	0	6.025	6.025	6.025	6.025							
Non-current liabilities	10	93	93	93	93	Balance sheet ratio						
Other payables	9	18	18	18	18	Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash	
Deferred tax liability	1	75	75	75	75	Current ratio (x)	1.9	1.2	1.3	1.4	1.5	
Total liabilities	1,287	2,362	2,349	2,822	2,884	Receivable turnover days	107	85	98	87	97	
Share capital	132	132	132	132	132	Inventory turnover days	68	72	74	74	74	
Reserves	1,762	1,875	2,076	2,305	2,564	Payable turnover days	121	132	113	134	115	
Non-controlling interests	0	13	13	13	13	Profitability (%)						
Shareholders' equity	1,894	1,947	2,148	2,377	2,636	ROE	9.5	12.0	12.0	12.4	12.6	
Total equity and liabilities	3,181	4,310	4,497	5,199	5,520	ROA	5.7	5.4	5.7	5.7	6.0	
						Per share data (US\$ cents)						
						EPS	2.95	3.50	3.86	4.40	4.97	
						DPS	0.66	0.90	0.85	0.97	1.09	

Source: Company data, CMBIS estimates

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