

FIT Hon Teng (6088 HK)

Recent sell-off overdone; Positive on investments and margin recovery in FY24-25E

We discussed with mgmt. after recent correction this week. Overall, we believe market concerns on higher opex are overdone since we expect opex ratio to peak at 14.0% in FY23E and improve to 13.2%/12.8% in FY24/25E on the back of economies of scale and improving efficiency. We also expect FIT's product expansion into higher-margin 400G optical cable/acoustics/EV components through Prettl's acquisition would drive NPM recovery from 3.2% in FY23E to 3.6%/4.0% in FY24/25E. Overall, we believe recent market reaction is overdone, since mgmt. has guided softer earnings (down 5-15% YoY) and higher opex for FY23E on several occasions (FY22/1Q23 earnings calls) in March/May. Trading at 8.3x/6.7x FY23/24E P/E (1-sd below 5-year average), we think risk-reward is attractive. Maintain BUY with TP HK\$2.18 (11x FY24E P/E). Upcoming catalysts include M&A and TWS project progress.

- FY23E guidance maintained with higher expenses for digitalization and global capacity expansion.** Mgmt. reiterated FY23E guidance announced during 1Q23 earnings in May: flattish revenue, GP growth of 5-15% YoY and NP decline of 5-15% YoY, due to investments in new products and capacity. In particular, mgmt. guided opex ratio will reach 14.0% in FY23E (vs 15.1% in 1Q23) and further improve in FY24/25E. For FY24/25E, FIT expected better product mix (EV/audio/AIoT) and lower opex will lead to earnings recovery.
- FY24/25E growth drivers: EV, 5G AIoT and audio/TWS.** We believe FIT's strategic roadmap into higher-margin products/markets will be positive to long-term growth and margin expansion. For EV, acquisition of Prettl is on track to complete in 1H23E, which will be consolidated in 2H23E. For 5G & AIoT, 400G optical cable and new CPU socket ramp-up will be positive to revenue growth in 2H23E. For audio, FIT's technology and manufacturing capability (Belkin, Beats, SSI) will allow it to capture opportunities in US client's TWS projects in FY24/25E.
- Attractive risk/reward; Positive on investments in new products and global expansion.** We believe recent correction is overdone as weaker earnings in FY23E are largely reflected in price. Our TP of HK\$2.18 is based on 11x FY24E P/E (33% below 5-year hist. avg.). Trading at 8.3x/6.7x FY23E/24E P/E (1-sd below 5-year average), we think risk-reward is attractive. Catalysts include TWS order wins and Prettl M&A progress.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	4,490	4,531	4,495	5,014	5,513
YoY growth (%)	4.1	0.9	(0.8)	11.5	9.9
Net profit (US\$ mn)	136.8	170.3	143.6	177.7	220.3
YoY growth (%)	221.3	24.5	(15.7)	23.8	23.9
EPS (Reported) (US\$ cents)	2.04	2.42	2.06	2.55	3.16
Consensus EPS (US\$)	na	2.42	2.46	2.62	3.30
P/E (x)	13.4	6.6	8.9	7.2	5.8
P/B (x)	0.8	0.5	0.5	0.5	0.4
Yield (%)	164.4	0.0	0.0	0.0	0.0
ROE (%)	6.0	7.2	5.9	6.9	7.9
Net gearing (%)	na	na	0.0	na	na

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.18
(Previous TP)	HK\$2.18)
Up/Downside	62.7%
Current Price	HK\$1.33

China Technology

Alex NG

(852) 3900 0881
alexng@cmbi.com.hk

Lily YANG, Ph.D

(852) 3916 3716
lilyyang@cmbi.com.hk

Claudia LIU

claudialiu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	10,464.5
Avg 3 mths t/o (HK\$ mn)	13.9
52w High/Low (HK\$)	2.46/0.92
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

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

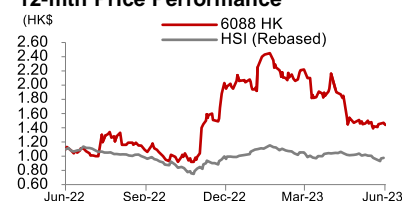
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.4%	0.6%
3-mth	-34.2%	-29.9%
6-mth	-26.2%	-27.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- FIT Hon Teng (6088 HK) – Weak 1Q23 as expected; Expect multiple drivers from iPhone/CPU socket/400G/EV in 2H23E ([link](#))
- FIT Hon Teng (6088 HK) – Recent correction overdone; Investment to accelerate “3+3 strategy” transition - 16 Mar 2023 ([link](#))
- FIT Hon Teng (6088 HK) – FY22 Preview: Strong execution of “3+3 Strategy”; Raise TP to HK\$2.66 – 14 Mar 2023 ([link](#))

Earnings Forecasts

Figure 1: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,495	5,014	5,513	4,610	4,977	5,409	-2%	1%	2%
Gross profit	835	887	976	821	878	962	2%	1%	2%
Operating profit	263	275	326	254	279	312	4%	-1%	5%
Net profit	144	178	221	157	181	207	-8%	-2%	7%
EPS (USD cents)	2.06	2.55	3.16	2.20	2.60	3.00	-6%	-2%	5%
Gross margin	18.6%	17.7%	17.7%	17.8%	17.6%	17.8%	0.8 ppt	0.1 ppt	-0.1 ppt
Operating margin	5.8%	5.5%	5.9%	5.5%	5.6%	5.8%	0.3 ppt	-0.1 ppt	0.1 ppt
Net margin	3.2%	3.6%	4.0%	3.4%	3.6%	3.8%	-0.2 ppt	-0.1 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown

US\$ 000	FY21	FY22	FY23E	FY24E	FY25E
Computing	803,167	819,708	860,693	946,763	1,069,842
...YoY		2%	5%	10%	13%
Smartphones	1,306,718	1,261,047	1,109,721	1,143,013	1,200,164
...YoY		-3%	-12%	3%	5%
Networking	879,468	753,854	633,237	664,899	698,144
...YoY		-14%	-16%	5%	5%
EV Mobility	138,894	152,814	366,286	593,464	724,959
...YoY		10%	140%	62%	22%
EV business		152,814	175,736	193,310	212,641
Prettl SWH		-	190,550	400,155	512,318
Systems Products	1,113,045	1,335,580	1,348,936	1,483,829	1,632,212
...YoY		20%	1%	10%	10%
Others	248,923	207,600	176,460	181,754	187,206
...YoY		-17%	-15%	3%	3%
Total	4,490,215	4,530,603	4,495,334	5,013,723	5,512,527
...YoY		0.9%	-0.8%	11.5%	9.9%

Source: Company data, CMBIGM estimates

Figure 3: P&L forecast

US\$ mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,315	4,490	4,531	4,495	5,014	5,513
...YoY	-1.3%	4.1%	0.9%	-0.8%	11.5%	9.9%
Cost of sales	-3,735	-3,817	-3,763	-3,660	-4,127	-4,536
Gross profit	580	673	768	835	887	976
GPM (%)	13%	15%	17%	19%	18%	18%
...YoY	-23.1%	16.1%	14.1%	8.7%	6.2%	10.1%
SG&A	-230	-266	-223	-328	-326	-336
...% of rev	-5.3%	-5.9%	-4.9%	-7.3%	-6.5%	-6.1%
R&D	-235	-301	-296	-301	-336	-369
...% of rev	-5.4%	-6.7%	-6.5%	-6.7%	-6.7%	-6.7%
Operating profit	125	177	307	263	275	326
OPM (%)	2.9%	3.9%	6.8%	5.8%	5.5%	5.9%
...YoY	-54.7%	41.6%	74.0%	-14.5%	4.7%	18.3%
Net profit	43	138	170	144	178	221
NPM (%)	1.0%	3.1%	3.7%	3.2%	3.6%	4.0%
...YoY	-81.9%	223.8%	23.2%	-15.0%	23.8%	23.9%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK\$2.18

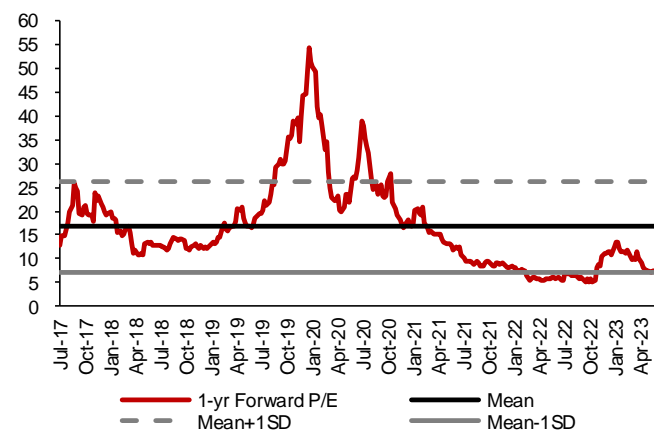
Our 12m TP of HK\$ 2.18 is based on 11x FY24E P/E (33% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and profitability recovery. Trading at 8.3x/6.7x FY23/24E P/E, we think risk-reward is attractive. Upcoming catalysts include Prettl acquisition progress, Apple share gain and improving margins.

Figure 4: 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	42,607	135.21	NA	NA	20.6	18.0	3.8	3.4	18.7	20.0
Amphenol	APH US	NR	48,251	81.05	NA	NA	28.1	25.5	6.2	5.5	24.5	24.5
Fabrinet	FN US	NR	4,691	129.23	NA	NA	17.0	16.4	3.2	2.8	20.6	18.2
Aviat	6807 JP	NR	1,885	2885.00	NA	NA	17.0	18.0	1.6	1.4	9.4	8.2
Hirose	6806 JP	NR	4,983	19450.00	NA	NA	19.1	19.8	1.9	1.9	10.1	9.4
Luxshare	002475 CH	BUY	31,363	31.58	48.0	52%	20.9	17.0	2.2	1.9	10.5	11.4
Cheng Uei	2392 TT	NR	694	41.90	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	2,567	56.10	NA	NA	12.0	11.3	0.5	0.4	5.7	5.9
Hon Hai	2317 TT	NR	50,677	112.50	NA	NA	12.8	10.0	1.0	0.9	8.2	9.8
Average							18.4	17.0	2.5	2.3	13.5	13.4
China technology												
FIT Hon Teng	6088 HK	BUY	1,230	1.33	2.18	63%	8.3	6.7	0.5	0.4	5.9	6.9
AAC Tech	2018 HK	HOLD	2,793	18.24	15.6	-15%	16.7	15.0	0.9	0.9	5.2	5.7
Sunny Optical	2382 HK	HOLD	10,988	78.40	86.8	11%	23.9	20.7	3.2	2.9	13.4	14.1
Tongda	698 HK	BUY	126	0.10	0.2	98%	2.8	2.5	0.1	0.1	2.9	4.7
BYDE	285 HK	HOLD	6,896	23.95	24.5	2%	16.4	13.4	1.7	1.5	10.4	11.4
Q tech	1478 HK	BUY	477	3.15	5.2	65%	6.6	4.9	0.6	0.6	9.8	12.0
TK Group	2283 HK	BUY	158	1.48	3.4	128%	2.8	3.8	0.6	0.6	20.7	17.8
FIH	2083 HK	NR	809	0.80	NA	NA	20.4	10.2	0.5	0.4	2.2	4.4
YOFC	6869 HK	NR	2,712	13.06	NA	NA	6.8	5.9	0.8	0.8	12.6	12.8
Cowell	1415 HK	NR	1,789	16.50	NA	NA	17.9	12.4	3.9	3.0	23.6	26.7
Average							12.3	9.6	1.3	1.1	10.6	11.6

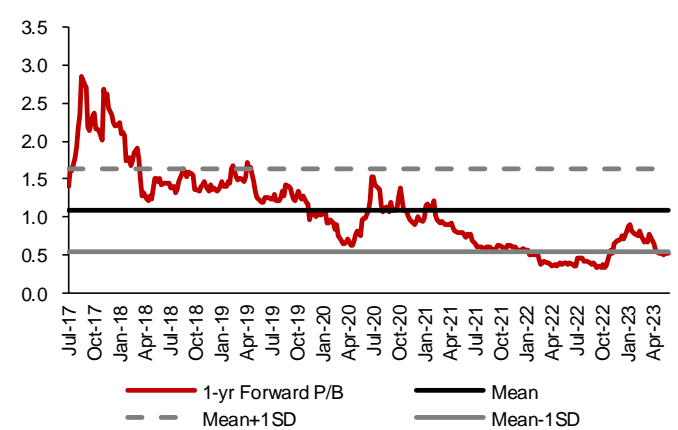
Source: Bloomberg, CMBIGM

Figure 5: 12M forward P/E band



Source: Company data, CMBIGM

Figure 6: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	4,315	4,490	4,531	4,495	5,014	5,513
Cost of goods sold	(3,735)	(3,817)	(3,763)	(3,660)	(4,127)	(4,536)
Gross profit	580	673	768	835	887	976
Selling expense	(97)	(105)	(93)	(148)	(135)	(143)
Admin expense	(134)	(161)	(130)	(180)	(191)	(193)
R&D expense	(235)	(301)	(296)	(301)	(336)	(369)
Others	11	70	58	57	50	55
Operating profit	125	177	307	263	275	326
Share of (losses)/profits of associates/JV	(9)	(8)	(46)	(46)	(46)	(46)
Interest expense	1	(2)	(14)	(12)	(10)	(8)
Pre-tax profit	117	167	248	205	219	272
Income tax	(74)	(31)	(78)	(62)	(42)	(52)
Minority interest	0	(1)	1	(1)	(1)	(1)
Net profit	43	137	170	144	178	220
BALANCE SHEET						
YE 31 Dec (US\$ mn)						
Current assets	2,848	3,034	2,764	2,563	2,875	3,193
Cash & equivalents	766	769	914	421	721	641
Account receivables	872	1,033	720	1,019	921	1,212
Inventories	944	982	967	959	1,070	1,176
ST bank deposits	126	98	66	66	66	66
Non-current assets	1,791	1,973	1,783	2,238	2,255	2,235
PP&E	728	823	753	1,208	1,225	1,205
Deferred income tax	135	133	131	131	131	131
Investment in JVs & assos	24	172	123	123	123	123
Intangibles	709	634	601	601	601	601
Other non-current assets	195	211	175	175	175	175
Total assets	4,639	5,007	4,547	4,801	5,130	5,428
Current liabilities	1,790	1,937	1,539	1,649	1,801	1,879
Short-term borrowings	604	690	453	453	453	453
Account payables	1,032	1,138	971	1,081	1,232	1,310
Tax payable	129	94	98	98	98	98
Other current liabilities	26	15	18	18	18	18
Non-current liabilities	659	674	661	661	661	661
Long-term borrowings	575	576	575	575	575	575
Obligations under finance leases	29	46	43	43	43	43
Other non-current liabilities	55	52	43	43	43	43
Total liabilities	2,449	2,611	2,200	2,310	2,462	2,540
Share capital	135	139	142	142	142	142
Other reserves	2,145	2,348	2,295	2,439	2,616	2,836
Total shareholders equity	2,190	2,396	2,347	2,491	2,668	2,888
Minority interest	3	1	2	2	2	2
Total equity and liabilities	4,639	5,007	4,547	4,801	5,130	5,428

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	117	167	248	205	219	272
Depreciation & amortization	241	146	270	345	383	420
Tax paid	(39)	(31)	(78)	(62)	(42)	(52)
Change in working capital	(279)	(93)	161	(182)	140	(320)
Others	74	(104)	0	0	0	0
Net cash from operations	115	85	602	307	700	320
Investing						
Capital expenditure	(335)	(241)	(200)	(800)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(21)	461	0	0	0	0
Net cash from investing	(356)	220	(200)	(800)	(400)	(400)
Financing						
Dividend paid	0	(30)	0	0	0	0
Net borrowings	0	86	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1)	0	0	0	0	0
Others	73	65	0	0	0	0
Net cash from financing	71	120	0	0	0	0
Net change in cash						
Cash at the beginning of the year	892	766	769	914	421	721
Exchange difference	43	0	0	0	0	0
Cash at the end of the year	766	769	914	421	721	641
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(1.3%)	4.1%	0.9%	(0.8%)	11.5%	9.9%
Gross profit	(23.1%)	16.1%	14.1%	8.7%	6.2%	10.1%
Operating profit	(54.7%)	41.6%	74.0%	(14.5%)	4.7%	18.3%
Net profit	(81.8%)	221.3%	24.5%	(15.7%)	23.8%	23.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	13.4%	15.0%	16.9%	18.6%	17.7%	17.7%
Operating margin	2.9%	3.9%	6.8%	5.8%	5.5%	5.9%
Return on equity (ROE)	2.0%	6.0%	7.2%	5.9%	6.9%	7.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	na	na	na	0.0	na	na
Current ratio (x)	1.6	1.6	1.8	1.6	1.6	1.7
Receivable turnover days	73.7	84.0	58.0	82.8	67.0	80.3
Inventory turnover days	92.3	93.9	93.8	95.7	94.6	94.6
Payable turnover days	100.8	108.8	94.2	107.8	109.0	105.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	55.1	13.4	6.6	8.9	7.2	5.8
P/B	1.1	0.8	0.5	0.5	0.5	0.4
Div yield (%)	39.9	164.4	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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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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