

FIT Hon Teng (6088 HK)

Strong 1H22 in-line; Positive outlook on “3+3 strategy”

FIT's 1H22 net profit of US\$85mn (+844% YoY) is in-line with positive profit alert earlier (US\$80-90mn), mainly driven by successful “3+3 strategy” execution and transformation into next-gen products with better product mix and higher ASP. Despite macro uncertainty and market concern over demand weakness, FIT delivered solid 1H22 growth across all segments with +27%/+17%/+13% YoY in smartphone/system products/ EV mobility, which offset weak networking revenue due to chip shortage on optical module shipments. Looking ahead, we are positive on FIT's “3+3 Strategy” execution (EV, 5G AIoT, Audio), and mgmt. also guided solid growth momentum in system product segment and strong orders from TWS related products in 2H22E. Maintain BUY with TP of HK\$1.78 (10x FY22E P/E, 1-sd below hist. avg).

- **1H22 in-line; Solid smartphone/system products/EV mobility offset networking weakness.** Revenue recovered at 6% YoY in 1H22, driven by 27%/17%/13% YoY growth of smartphone (lightning cables and connectors), system products (wired/ TWS earphones) and EV segment (Tesla CPD). Networking revenue declined 19.2% YoY due to chip shortage impact on optical module shipments. 1H22 GPM further recovered to pre-pandemic level of 16.7% (vs 16.2% in 2H21).
- **“3+3 Strategy” to bear fruit with strong product pipeline.** Mgmt. believed solid growth and margin expansion in 1H22 was a result of successful execution of “3+3 strategy”. The Company expects “3+3 Strategy” segments to remain strong in 2H22E, backed by interconnection solutions for next-gen smart devices, micro speaker components, robust demand from EV/e-bike applications, and Belkin's new product launches. Overall, mgmt. expected “3+3” revenue mix will increase to 31% in FY23E from 16% in 2021.
- **Attractive risk/reward; Maintain BUY with TP of HK\$1.78 (53% upside).** Our TP of HK\$1.78 is based on 10x FY22E P/E (1-sd below 5-year hist. avg.). Trading at 6.5x/5.7x FY22E/23E P/E, we think risk-reward is attractive. Upcoming catalysts include iPhone14 launch, new products from Belkin/EV, M&A and improving margins.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	4,314.7	4,490.2	4,671.8	5,107.6	5,635.0
YoY growth (%)	(1.3%)	4.1%	4.0%	9.3%	10.3%
Net profit (US\$ mn)	42.6	136.8	155.1	178.0	208.3
EPS (Reported)(US\$)	0.64	2.04	2.28	2.62	3.07
YoY growth (%)	(82.2%)	219.9%	12.0%	14.8%	17.0%
Consensus EPS (US\$)	NA	NA	1.68	1.97	2.33
P/E (x)	23.4	7.3	6.5	5.7	4.9
P/B (x)	1.1	0.8	0.4	0.4	0.4
ROE (%)	1.9%	5.7%	6.1%	6.7%	7.3%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$1.78
(Previous TP)	HK\$1.78)
Up/Downside	53.4%
Current Price	HK\$1.16

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Stock Data

Mkt Cap (HK\$ mn)	8,429.7
Avg 3 mths t/o (HK\$ mn)	1.1
52w High/Low (HK\$)	1.80/0.88
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

Foxconn Far East Ltd	71.3%
Lu Sung-Ching	5.8%

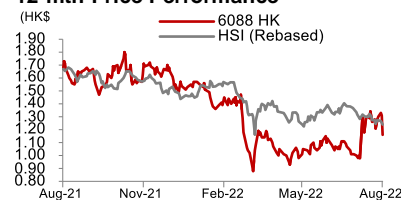
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.9%	27.2%
3-mth	14.9%	15.0%
6-mth	-20.0%	1.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Results Review

Figure 1: 1H22 results review

US\$ mn	1H21	1H22	YoY	CMBI		Consensus	
				FY22E	Track(%)	FY22E	Track (%)
Revenue	1,982	2,101	6.0%	4,303	49%	4,585	46%
Gross profit	268	351	31.0%	638	55%	689	51%
Operating profit	16	120	652.9%	190	63%	169	71%
Net profit	9	85	818.8%	135	63%	120	71%
EPS (USD cents)	0.14	1.23	786.7%	2.42	51%	1.68	73%
Gross margin	13.5%	16.7%		14.8%		15.0%	
Operating margin	0.8%	5.7%		4.4%		3.7%	
Net margin	0.5%	4.1%		3.8%		2.6%	

Source: Company data, CMBIGM estimates

Figure 2: P&L forecast

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,372	4,315	4,490	4,672	5,108	5,635
...YoY	9.2%	-1.3%	4.1%	4.0%	9.3%	10.3%
Cost of sales	(3,618)	(3,735)	(3,817)	(3,966)	(4,318)	(4,751)
Gross profit	754	580	673	705	790	884
GPM (%)	17%	13%	15%	15%	15%	16%
...YoY	6.5%	-23.1%	16.1%	4.8%	12.0%	11.9%
SG&A	(269)	(230)	(266)	(262)	(296)	(327)
...% of rev	-6.2%	-5.3%	-5.9%	-5.6%	-5.8%	-5.8%
R&D	(250)	(235)	(301)	(304)	(332)	(366)
...% of rev	-5.7%	-5.4%	-6.7%	-6.5%	-6.5%	-6.5%
Operating profit	275	125	177	187	213	247
OPM (%)	6.3%	2.9%	3.9%	4.0%	4.2%	4.4%
...YoY	-10.8%	-54.7%	41.6%	5.8%	13.8%	16.1%
Net profit	235	43	138	154	177	207
NPM (%)	5.4%	1.0%	3.1%	3.3%	3.5%	3.7%
...YoY	0.6%	-81.9%	223.8%	12.0%	14.8%	17.0%

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

US\$ mn	FY21	FY22E	FY23E	FY24E
Computing	853,610	853,610	896,291	941,105
...YoY		0%	5%	5%
Smartphones	1,270,090	1,282,791	1,346,930	1,414,277
...YoY		1%	5%	5%
Networking	890,670	846,137	930,750	1,051,748
...YoY		-5%	10%	13%
EV Mobility	134,680	161,616	202,020	262,626
...YoY		20%	25%	30%
Systems Products	1,097,510	1,317,012	1,514,564	1,741,748
...YoY		20%	15%	15%
Others	200,650	210,683	217,003	223,513
...YoY		5%	3%	3%
Total	4,490,215	4,671,848	5,107,558	5,635,017
...YoY		4.0%	9.3%	10.3%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK1.78

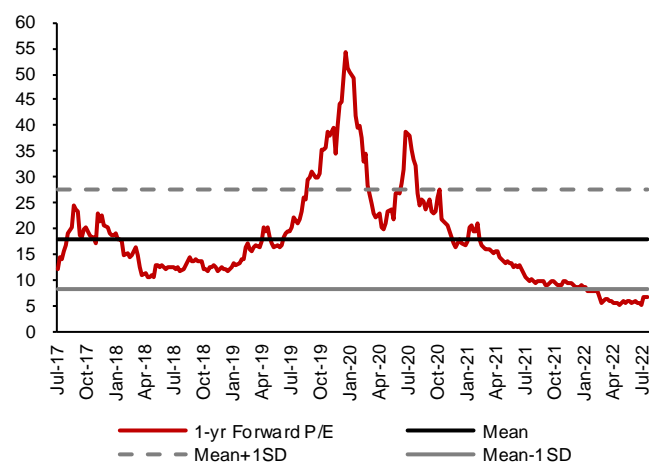
Our 12m TP of HK\$ 1.78 is based on 10x FY22E P/E. Trading at 6.5 FY22E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins.

Figure 4: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY22E	P/E (x) FY23E	P/B (x) FY22E	P/B (x) FY23E	ROE (%) FY22E	ROE (%) FY23E
Global Connectors												
TE	TEL US	NR	42,782	133.76	NA	NA	18.4	17.5	4.0	3.6	21.9	21.7
Amphenol	APH US	NR	46,391	77.99	NA	NA	26.6	25.5	6.8	6.0	27.5	26.4
Fabrinet	FN US	NR	3,540	96.23	NA	NA	16.1	14.8	2.8	2.4	18.7	17.2
Aviat	6807 JP	NR	1,633	2344.00	NA	NA	15.7	12.6	1.4	1.3	9.2	10.5
Hirose	6806 JP	NR	5,507	19600.00	NA	NA	24.0	20.2	2.1	2.0	8.8	9.7
Luxshare	002475 CH	BUY	36,556	34.69	NA	NA	25.0	18.9	5.3	4.2	21.8	22.8
Cheng Uei	2392 TT	NR	554	32.50	NA	NA	12.4	-	0.7	-	5.5	-
Foxconn	2354 TT	NR	2,345	49.80	NA	NA	11.5	10.7	0.5	0.5	5.8	6.5
Hon Hai	2317 TT	NR	50,773	110.00	NA	NA	10.2	9.2	1.0	0.9	10.2	10.7
Average							17.8	16.2	2.7	2.6	14.4	15.7
China technology												
FIT Hon Teng	6088 HK	BUY	1,074	1.16	1.78	53%	6.5	5.7	0.4	0.4	6.0	5.9
AAC Tech	2018 HK	HOLD	2,245	14.58	14.0	-4%	17.2	12.0	0.7	0.7	4.0	5.6
Sunny Optical	2382 HK	HOLD	15,556	111.30	108.6	-2%	31.2	25.7	4.6	4.0	14.7	15.6
Tongda	698 HK	BUY	152	0.12	0.2	79%	3.1	2.1	0.1	0.1	3.1	4.5
BYDE	285 HK	HOLD	6,072	21.15	12.5	-41%	24.0	14.3	1.7	1.5	6.9	10.6
Q tech	1478 HK	BUY	622	4.12	5.6	36%	16.1	7.9	0.9	0.8	5.5	10.3
TK Group	2283 HK	BUY	188	1.77	3.4	91%	4.3	3.4	0.8	0.7	18.6	20.7
FIH	2038 HK	NR	1,004	0.99	NA	NA	-	21.0	0.6	0.5	2.7	2.8
Truly	732 HK	NR	647	1.55	NA	NA	3.9	3.1	0.4	0.4	10.6	12.4
YOFC	6869 HK	NR	2,665	13.98	NA	NA	9.7	8.8	0.9	0.8	9.1	9.7
Ju Teng	3336 HK	NR	214	1.40	NA	NA	7.0	4.8	0.2	0.2	3.5	5.0
Cowell	1415 HK	NR	1,700	15.96	NA	NA	22.9	16.9	4.1	3.4	20.3	23.2
Average							13.3	10.5	1.3	1.1	9.0	10.5

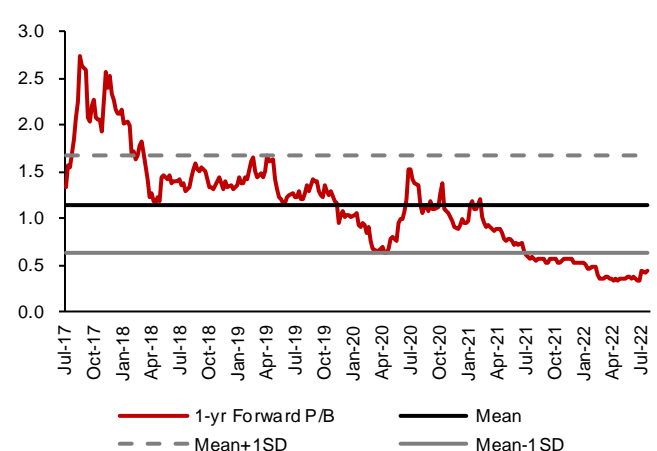
Source: Bloomberg, CMBIGM, * TP under review

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	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	4,372	4,315	4,490	4,672	5,108	5,635
Cost of goods sold	(3,618)	(3,735)	(3,817)	(3,966)	(4,318)	(4,751)
Gross profit	754	580	673	705	790	884
Selling expense	(111)	(97)	(105)	(103)	(117)	(130)
Admin expense	(159)	(134)	(161)	(159)	(179)	(197)
R&D expense	(250)	(235)	(301)	(304)	(332)	(366)
Others	39	11	70	47	51	56
Operating profit	275	125	177	187	213	247
Share of (losses)/profits of associates	(2)	(9)	(8)	(4)	(4)	(4)
Interest expense	(7)	1	(2)	(1)	1	2
Pre-tax profit	266	117	167	182	209	245
Income tax	(33)	(74)	(31)	(27)	(31)	(37)
Net profit	233	43	137	155	178	208
Minority interest	(2)	0	(1)	1	1	1
Net profit to shareholders	235	43	138	154	177	207
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	2,742	2,848	3,034	3,029	3,392	3,598
Cash & equivalents	892	766	769	809	807	944
Account receivables	930	872	1,033	949	1,218	1,172
Inventories	703	944	982	1,022	1,117	1,233
ST bank deposits	118	126	98	98	98	98
Non-current assets	1,665	1,791	1,973	2,016	2,049	2,071
PP&E	566	728	823	867	900	921
Deferred income tax	115	135	133	133	133	133
Investment in JVs & assos	22	24	172	172	172	172
Intangibles	745	709	634	634	634	634
Other non-current assets	218	195	211	211	211	211
Total assets	4,407	4,639	5,007	5,045	5,441	5,669
Current liabilities	1,662	1,790	1,937	1,855	2,111	2,177
Short-term borrowings	494	604	690	629	664	705
Account payables	1,086	1,032	1,138	1,116	1,338	1,363
Tax payable	63	129	94	94	94	94
Other current liabilities	20	26	15	15	15	15
Non-current liabilities	668	659	674	674	674	674
Long-term borrowings	574	575	576	576	576	576
Obligations under finance leases	23	29	46	46	46	46
Other non-current liabilities	71	55	52	52	52	52
Total liabilities	2,330	2,449	2,611	2,529	2,785	2,850
Share capital	134	135	139	139	139	139
Other reserves	2,025	2,145	2,348	2,468	2,606	2,768
Total shareholders equity	2,077	2,190	2,396	2,517	2,656	2,819
Minority interest	11	3	1	2	3	4
Total equity and liabilities	4,407	4,639	5,007	5,045	5,441	5,669
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	266	117	167	182	209	245
Depreciation & amortization	255	241	146	156	167	178
Tax paid	(74)	(39)	(31)	(27)	(31)	(37)

Change in working capital	(169)	(279)	(93)	23	(143)	(45)
Others	34	74	(104)	1	(1)	(2)
Net cash from operations	313	115	85	335	202	339
Investing						
Capital expenditure	(240)	(335)	(241)	(200)	(200)	(200)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(178)	(21)	461	12	13	15
Net cash from investing	(417)	(356)	220	(188)	(187)	(185)
Financing						
Dividend paid	(59)	0	(30)	(34)	(39)	(46)
Net borrowings	0	0	86	(61)	35	41
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(26)	(1)	0	0	0	0
Others	20	73	65	(13)	(13)	(13)
Net cash from financing	(64)	71	120	(107)	(17)	(18)
Net change in cash						
Cash at the beginning of the year	1,065	892	766	769	809	807
Exchange difference	(4)	43	0	0	0	0
Cash at the end of the year	892	766	769	809	807	944
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	9.2%	(1.3%)	4.1%	4.0%	9.3%	10.3%
Gross profit	6.5%	(23.1%)	16.1%	4.8%	12.0%	11.9%
Operating profit	(10.8%)	(54.7%)	41.6%	5.8%	13.8%	16.1%
Net profit	0.3%	(81.8%)	221.3%	13.4%	14.8%	17.0%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	17.2%	13.4%	15.0%	15.1%	15.5%	15.7%
Operating margin	6.3%	2.9%	3.9%	4.0%	4.2%	4.4%
Net profit margin	5.4%	1.0%	3.1%	3.3%	3.5%	3.7%
Return on assets (ROA)	5.3%	0.9%	2.7%	3.1%	3.3%	3.7%
Return on equity (ROE)	11.3%	1.9%	5.7%	6.1%	6.7%	7.3%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.6	1.6	1.6	1.6	1.6	1.7
Receivable turnover days	77.7	73.7	84.0	74.1	87.0	75.9
Inventory turnover days	70.9	92.3	93.9	94.1	94.5	94.7
Payable turnover days	109.6	100.8	108.8	102.7	113.1	104.7
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	0.1	0.6	0.1	0.1	0.1	0.0
P/B	1.3	1.1	0.8	0.4	0.4	0.4
Div yield (%)	0.0%	39.9%	164.4%	339.9%	390.2%	456.6%

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

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