

# FIT Hon Teng (6088 HK)

## FY22 Preview: Strong execution of “3+3 Strategy”; Raise TP to HK\$2.66

FIT Hon Teng will report FY22 results this week. We estimate FY22E revenue/net profit to increase 2%/34% YoY to US\$ 4,578mn/185mn, 1%/15% above consensus, mainly driven by strong smartphone/audio sales, solid EV segment, and margin recovery across all segments. By segment, we expect smartphone/networking/computing/EV/system product to grow 13%/-15%/-7%/20%/13% YoY in FY22E. Looking ahead, we are positive on FIT's accelerated “3+3 Strategy”, backed by potential TWS order wins and synergy of automotive component supplier Prettl in FY23/24E. We factored in acquisition of Prettl in our model, and raised TP to HK\$2.66 based on 11x FY23E P/E (vs prior 8x P/E), 33% discount to 5-year avg. given accelerated growth on “3+3 Strategy” and margin recovery. Reiterate BUY.

- **FY22 Preview: Strong EV mobility and weak networking/computing segments.** We estimate EV mobility will grow 20% YoY given order wins with Chinese EV customers and tier-ones, and smartphone segment will grow 13% YoY given Apple's market share gain. On the back of weak consumer market and product mix, we expect networking/computing segments to shrink 15%/7% YoY. Overall, we estimate revenue/net profit to increase 2%/34% YoY in FY22E.
- **Positive synergy from Prettl SWH acquisition; Accelerated execution of “3+3 Strategy”.** We believe Prettl's expertise in sensor, connectivity and electrification core technology in automotive and new mobility industry align well with FIT's automotive business. We expect the acquisition deal will close by 2Q23E, and sales contribution will be consolidated on financials in 2H23E. We lifted our topline estimates by 4%/7% and EPS estimates by 1%/5% in FY23/24E. Following impact of global pandemic in 2022, we think the Prettl's margin will start to recover in 2H23E. We believe the acquisition deal will lead to significant synergy in terms of product portfolio, client base, and global manufacturing facilities.
- **Our FY22-24E EPS are 22-33% above consensus; Raise TP to HK\$2.66.** We raised TP to HK\$2.66 based on higher 11x FY23E P/E (vs prior 8x P/E), 33% discount to 5-year hist. avg. given improving growth on “3+3 Strategy” and margin recovery. Trading at 8.7x/7.6x FY23/24E P/E, we think risk-reward is still attractive. Upcoming catalysts include Prettl acquisition progress, share gain in Apple and improving margins.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	4,315	4,490	4,578	5,180	5,893
YoY growth (%)	(1.3)	4.1	2.0	13.2	13.8
Net profit (US\$ mn)	42.6	136.8	186.0	216.7	247.7
YoY growth (%)	(81.8)	221.3	36.0	16.5	14.3
EPS (Reported) (US\$ cents)	0.64	2.04	2.67	3.11	3.55
Consensus EPS (US\$)	na	na	2.18	2.34	2.83
P/E (x)	42.4	13.2	10.1	8.7	7.6
P/B (x)	1.1	0.8	0.7	0.7	0.7
Yield (%)	39.9	164.4	212.4	247.4	282.9
ROE (%)	2.0	6.0	7.5	8.3	8.8

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$2.66
(Previous TP)	HK\$1.84)
Up/Downside	26.7%
Current Price	HK\$2.10

### 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)	15,769.4
Avg 3 mths t/o (HK\$ mn)	2.1
52w High/Low (HK\$)	2.46/0.88
Total Issued Shares (mn)	7267.0

Source: FactSet

### Shareholding Structure

Foxconn Far East Ltd	71.2%
Lu Sung-Ching	5.9%

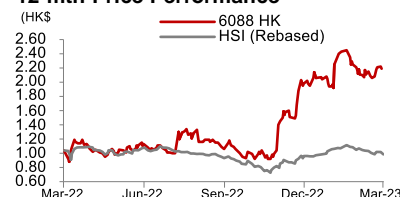
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.5%	8.0%
3-mth	8.5%	8.4%
6-mth	100.9%	95.2%

Source: FactSet

### 12-mth Price Performance



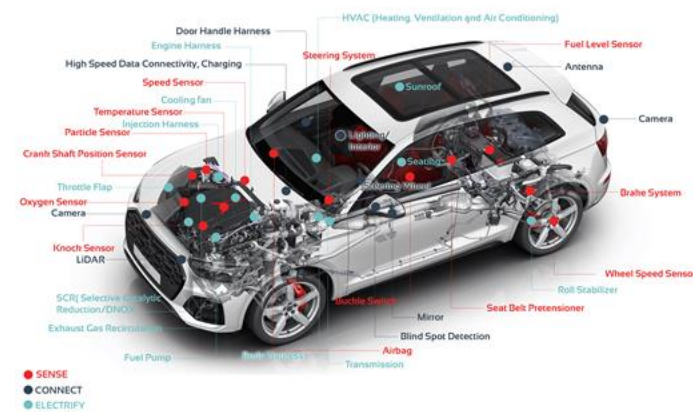
Source: FactSet

## Overview of Prettl SWH group

PRETTL SWH group is one of the leading developers and manufacturers of best-in-class sensor, connectivity and electrification solutions for Automotive and New Mobility OEMs as well as Tier 1 Automotive system suppliers. The Company is founded in 2015 with its headquarters located in Germany. It has a global footprint of 16 locations across 12 countries, and about 8,000 skilled employees worldwide.

Upon the completion of the acquisition deal, SWH Group will operate as a subsidiary of FIT Hon Teng, while maintaining its operational independence and company culture. The SWH Group's high level executives will stay in the lead and further strengthen and expand the technology product portfolio. The transaction will create vertical integration by combining SWH Group's high-quality module and component products and FIT's current system product. Also, SWH Group's global network of manufacturing, sales and R&D enables FIT to horizontally expand its key EV component strength.

Figure 1: Prettl SWH's automotive applications



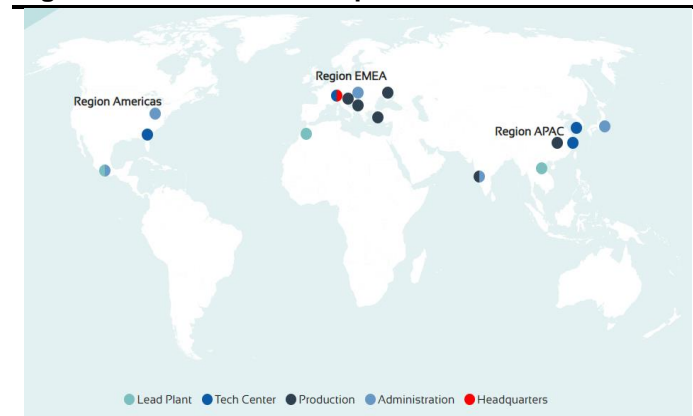
Source: Company data, CMBIGM

Figure 2: Prettl SWH's E-Bike applications



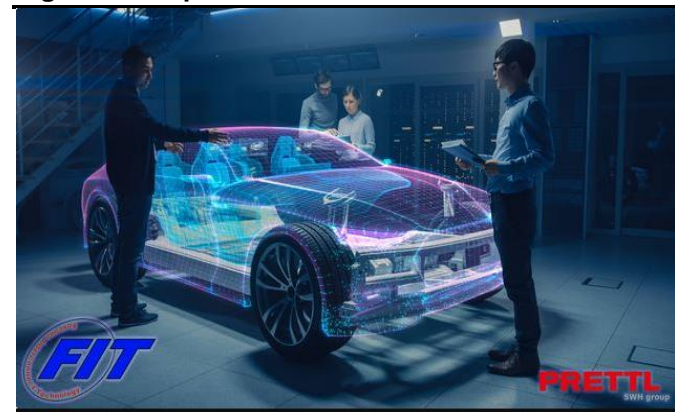
Source: Company data, CMBIGM

Figure 3: Prettl SWH's footprint



Source: Company website, CMBIGM

Figure 4: Corporation between FIT and PRETTL



Source: Company website, CMBIGM

## FY22E Results Preview

Figure 5: FY22E results preview

US\$ mn	FY19	FY20	FY21	FY22E	YoY	Consensus	Diff (%)
Revenue	4,372	4,315	4,490	4,578	2%	4,539	1%
Gross profit	754	580	673	739	10%	726	2%
Operating profit	275	125	177	231	31%	190	21%
Net profit	235	43	138	185	34%	161	15%
EPS (US\$ cents)	3.57	0.64	2.04	2.67	31%	2.00	22%
Gross margin	17.2%	13.4%	15.0%	16.2%	1.2ppt	16.0%	0.2ppt
Operating margin	6.3%	2.9%	3.9%	5.1%	1.1ppt	4.2%	0.9ppt
Net margin	5.4%	1.0%	3.1%	4.0%	1ppt	3.6%	0.5ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 6: Revenue breakdown

US\$ 000	FY21	FY22E	FY23E	FY24E
<b>Computing</b>	<b>880,770</b>	<b>819,116</b>	<b>860,072</b>	<b>903,076</b>
...YoY	-	-7%	5%	5%
<b>Smartphones</b>	<b>1,253,290</b>	<b>1,416,218</b>	<b>1,487,029</b>	<b>1,561,380</b>
...YoY	-	13%	5%	5%
<b>Networking</b>	<b>894,110</b>	<b>759,994</b>	<b>835,993</b>	<b>944,672</b>
...YoY	-	-15%	10%	13%
<b>EV Mobility</b>	<b>133,600</b>	<b>160,320</b>	<b>382,934</b>	<b>650,071</b>
...YoY	-	20%	139%	70%
EV business	133,600	160,320	192,384	230,861
Prettl SWH	-	-	190,550	419,210
<b>Systems Products</b>	<b>1,099,230</b>	<b>1,242,130</b>	<b>1,428,449</b>	<b>1,642,717</b>
...YoY	-	13%	15%	15%
<b>Others</b>	<b>200,210</b>	<b>180,189</b>	<b>185,595</b>	<b>191,163</b>
...YoY	-	-10%	3%	3%
<b>Total</b>	<b>4,490,215</b>	<b>4,577,966</b>	<b>5,180,071</b>	<b>5,893,077</b>
...YoY		2.0%	13.2%	13.8%

Source: Company data, CMBIGM estimates

## Earnings Revision

Figure 7: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,578	5,180	5,893	4,578	4,998	5,504	0%	4%	7%
Gross profit	739	842	967	723	791	877	2%	7%	10%
Operating profit	231	267	304	220	246	274	5%	9%	11%
Net profit	185	215	246	182	205	230	2%	5%	7%
EPS (US\$ cents)	2.67	3.11	3.55	2.63	2.96	3.32	2%	5%	7%
Gross margin	16.2%	16.3%	16.4%	15.8%	15.8%	15.9%	0.4 ppt	0.4 ppt	0.5 ppt
Operating margin	5.1%	5.2%	5.2%	4.8%	4.9%	5.0%	0.3 ppt	0.2 ppt	0.2 ppt
Net Margin	4.0%	4.2%	4.2%	4.0%	4.1%	4.2%	0.1 ppt	0 ppt	0 ppt

Source: Company data, CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,578	5,180	5,893	4,539	4,788	5,184	1%	8%	14%
Gross profit	739	842	967	726	773	837	2%	9%	15%
Operating profit	231	267	304	190	214	243	21%	25%	25%
Net profit	185	215	246	161	175	193	15%	23%	28%
EPS (US\$ cents)	2.67	3.11	3.55	2.18	2.34	2.83	22%	33%	26%
Gross margin	16.2%	16.3%	16.4%	16.0%	16.1%	16.2%	0.2 ppt	0.1 ppt	0.3 ppt
Operating margin	5.1%	5.2%	5.2%	4.2%	4.5%	4.7%	0.9 ppt	0.7 ppt	0.5 ppt
Net Margin	4.0%	4.2%	4.2%	3.6%	3.7%	3.7%	0.5 ppt	0.5 ppt	0.5 ppt

Source: Company data, CMBIGM estimates

Figure 9: P&L forecast

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>4,372</b>	<b>4,315</b>	<b>4,490</b>	<b>4,578</b>	<b>5,180</b>	<b>5,893</b>
...YoY	9.2%	-1.3%	4.1%	2.0%	13.2%	13.8%
Cost of sales	-3,618	-3,735	-3,817	-3,839	-4,338	-4,926
<b>Gross profit</b>	<b>754</b>	<b>580</b>	<b>673</b>	<b>739</b>	<b>842</b>	<b>967</b>
<b>GPM (%)</b>	<b>17.2%</b>	<b>13.4%</b>	<b>15.0%</b>	<b>16.2%</b>	<b>16.3%</b>	<b>16.4%</b>
...YoY	6.5%	-23.1%	16.1%	9.9%	13.9%	14.8%
SG&A	-269	-230	-266	-256	-290	-336
...% of rev	-6.2%	-5.3%	-5.9%	-5.6%	-5.6%	-5.7%
R&D	-250	-235	-301	-298	-337	-386
...% of rev	-5.7%	-5.4%	-6.7%	-6.5%	-6.5%	-6.6%
<b>Operating profit</b>	<b>275</b>	<b>125</b>	<b>177</b>	<b>231</b>	<b>267</b>	<b>304</b>
<b>OPM (%)</b>	<b>6.3%</b>	<b>2.9%</b>	<b>3.9%</b>	<b>5.1%</b>	<b>5.2%</b>	<b>5.2%</b>
...YoY	-10.8%	-54.7%	41.6%	30.9%	15.7%	13.7%
<b>Net profit</b>	<b>235</b>	<b>43</b>	<b>138</b>	<b>185</b>	<b>215</b>	<b>246</b>
<b>NPM (%)</b>	<b>5.4%</b>	<b>1.0%</b>	<b>3.1%</b>	<b>4.0%</b>	<b>4.2%</b>	<b>4.2%</b>
...YoY	0.6%	-81.9%	223.8%	34.3%	16.5%	14.3%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP of HK\$2.66

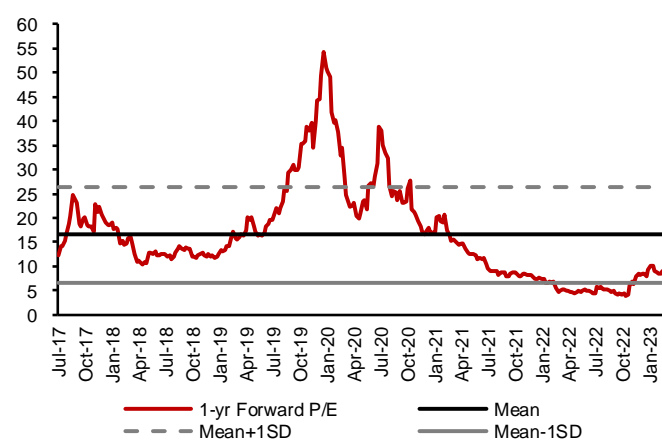
Our new 12m TP of HK\$ 2.66 is based on 11x FY23E P/E (33% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and probability recovery. Trading at 8.7x FY23E P/E, we think risk-reward is still attractive. Upcoming catalysts include Prettl acquisition progress, Apple share gain and improving margins.

**Figure 10: Peers' valuation**

			Market Cap	Price	TP	Up/ Down	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	US\$(mn)	(LC)	(LC)	-side	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Global Connectors												
TE	TEL US	NR	39,408	124.53	NA	NA	17.1	18.9	3.7	3.4	22.0	18.4
Amphenol	APH US	NR	45,487	76.50	NA	NA	25.7	25.6	6.7	5.8	28.1	24.9
Fabrinet	FN US	NR	4,322	118.06	NA	NA	19.7	15.3	3.4	2.9	18.7	20.8
Aviat	6807 JP	NR	1,545	2253.00	NA	NA	15.1	12.8	1.4	1.2	9.2	10.2
Hirose	6806 JP	NR	4,706	17020.00	NA	NA	20.9	16.5	1.8	1.7	8.8	10.2
Luxshare	002475 CH	Buy	29,684	28.80	52.3	82%	20.4	16.6	3.7	3.1	18.2	18.6
Cheng Uei	2392 TT	NR	658	39.30	NA	NA	10.2	8.8	0.8	0.8	8.1	8.9
Foxconn	2354 TT	NR	2,476	53.60	NA	NA	13.0	12.2	0.6	0.5	5.3	5.7
Hon Hai	2317 TT	NR	46,636	103.00	NA	NA	10.0	9.1	0.9	0.9	9.8	10.2
Average							16.9	15.1	2.6	2.3	14.2	14.2
China technology												
FIT Hon Teng	6088 HK	Buy	1,941	2.09	2.66	27%	10.1	8.7	0.7	0.7	7.0	7.8
AAC Tech	2018 HK	Hold	2,630	17.22	15.6	-9%	22.4	15.8	0.8	0.8	3.7	5.1
Sunny Optical	2382 HK	Hold	12,411	88.85	96.3	8%	32.8	23.1	3.8	3.3	11.5	14.4
Tongda	698 HK	Buy	149	0.12	0.2	83%	4.0	3.0	0.1	0.1	2.3	3.0
BYDE	285 HK	Hold	6,115	21.30	20.4	-4%	26.2	15.5	1.7	1.5	6.4	9.9
Q tech	1478 HK	Buy	705	4.66	5.8	24%	20.9	8.7	1.0	0.9	4.8	10.6
TK Group	2283 HK	Buy	170	1.60	3.4	111%	3.9	3.1	0.7	0.6	18.6	20.7
YOFC	6869 HK	NR	2,897	15.30	NA	NA	9.0	7.5	1.0	0.9	10.8	11.4
Cowell	1415 HK	NR	1,808	16.90	NA	NA	22.4	8.7	3.0	2.6	18.3	20.3
Average							16.9	11.2	1.4	1.3	9.5	10.6

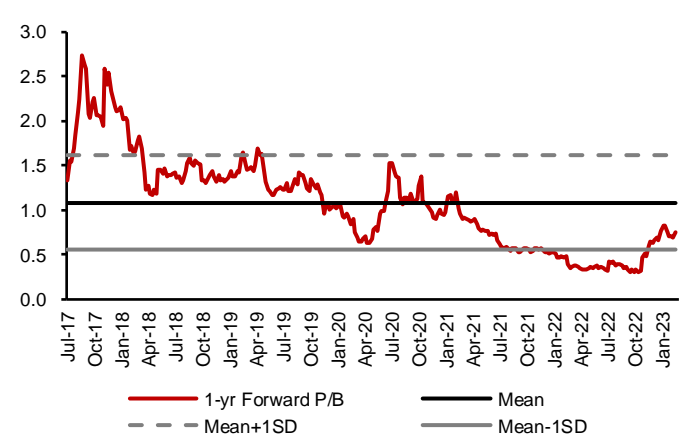
Source: Bloomberg, CMBIGM

**Figure 11: 12M forward P/E band**



Source: Company data, CMBIGM

**Figure 12: 12M forward P/B band**



Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
<b>Revenue</b>	<b>4,372</b>	<b>4,315</b>	<b>4,490</b>	<b>4,578</b>	<b>5,180</b>	<b>5,893</b>
Cost of goods sold	(3,618)	(3,735)	(3,817)	(3,839)	(4,338)	(4,926)
<b>Gross profit</b>	<b>754</b>	<b>580</b>	<b>673</b>	<b>739</b>	<b>842</b>	<b>967</b>
Selling expense	(111)	(97)	(105)	(101)	(114)	(133)
Admin expense	(159)	(134)	(161)	(156)	(176)	(203)
R&D expense	(250)	(235)	(301)	(298)	(337)	(386)
Others	39	11	70	46	52	59
<b>Operating profit</b>	<b>275</b>	<b>125</b>	<b>177</b>	<b>231</b>	<b>267</b>	<b>304</b>
Share of (losses)/profits of associates/JV	(2)	(9)	(8)	(4)	(4)	(4)
Interest expense	(7)	1	(2)	(1)	1	2
<b>Pre-tax profit</b>	<b>266</b>	<b>117</b>	<b>167</b>	<b>227</b>	<b>264</b>	<b>302</b>
Income tax	(33)	(74)	(31)	(41)	(48)	(54)
Minority interest	(2)	0	(1)	1	1	2
<b>Net profit</b>	<b>233</b>	<b>43</b>	<b>137</b>	<b>186</b>	<b>217</b>	<b>248</b>

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
<b>Current assets</b>	<b>2,742</b>	<b>2,848</b>	<b>3,034</b>	<b>2,986</b>	<b>3,544</b>	<b>3,720</b>
Cash & equivalents	892	766	769	827	873	970
Account receivables	930	872	1,033	909	1,288	1,211
Inventories	703	944	982	1,002	1,133	1,289
ST bank deposits	118	126	98	98	98	98
<b>Non-current assets</b>	<b>1,665</b>	<b>1,791</b>	<b>1,973</b>	<b>2,016</b>	<b>2,049</b>	<b>2,071</b>
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
<b>Total assets</b>	<b>4,407</b>	<b>4,639</b>	<b>5,007</b>	<b>5,003</b>	<b>5,593</b>	<b>5,791</b>
<b>Current liabilities</b>	<b>1,662</b>	<b>1,790</b>	<b>1,937</b>	<b>1,788</b>	<b>2,209</b>	<b>2,213</b>
Short-term borrowings	494	604	690	635	678	726
Account payables	1,086	1,032	1,138	1,044	1,422	1,378
Tax payable	63	129	94	94	94	94
Other current liabilities	20	26	15	15	15	15
<b>Non-current liabilities</b>	<b>668</b>	<b>659</b>	<b>674</b>	<b>674</b>	<b>674</b>	<b>674</b>
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
<b>Total liabilities</b>	<b>2,330</b>	<b>2,449</b>	<b>2,611</b>	<b>2,462</b>	<b>2,882</b>	<b>2,887</b>
Share capital	134	135	139	139	139	139
Other reserves	2,025	2,145	2,348	2,492	2,660	2,852
<b>Total shareholders equity</b>	<b>2,077</b>	<b>2,190</b>	<b>2,396</b>	<b>2,541</b>	<b>2,710</b>	<b>2,904</b>
Minority interest	11	3	1	2	3	5
<b>Total equity and liabilities</b>	<b>4,407</b>	<b>4,639</b>	<b>5,007</b>	<b>5,003</b>	<b>5,593</b>	<b>5,791</b>



CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	266	117	167	227	264	302
Depreciation & amortization	255	241	146	156	167	178
Tax paid	(74)	(39)	(31)	(41)	(48)	(54)
Change in working capital	(169)	(279)	(93)	10	(133)	(123)
Others	34	74	(104)	1	(1)	(2)
<b>Net cash from operations</b>	<b>313</b>	<b>115</b>	<b>85</b>	<b>353</b>	<b>250</b>	<b>301</b>
<b>Investing</b>						
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
<b>Net cash from investing</b>	<b>(417)</b>	<b>(356)</b>	<b>220</b>	<b>(188)</b>	<b>(187)</b>	<b>(185)</b>
<b>Financing</b>						
Dividend paid	(59)	0	(30)	(41)	(47)	(54)
Net borrowings	0	0	86	(55)	42	48
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)
<b>Net cash from financing</b>	<b>(64)</b>	<b>71</b>	<b>120</b>	<b>(108)</b>	<b>(18)</b>	<b>(18)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,065	892	766	769	827	873
Exchange difference	(4)	43	0	0	0	0
<b>Cash at the end of the year</b>	<b>892</b>	<b>766</b>	<b>769</b>	<b>827</b>	<b>873</b>	<b>970</b>
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Revenue	9.2%	(1.3%)	4.1%	2.0%	13.2%	13.8%
Gross profit	6.5%	(23.1%)	16.1%	9.9%	13.9%	14.8%
Operating profit	(10.8%)	(54.7%)	41.6%	30.9%	15.7%	13.7%
Net profit	0.3%	(81.8%)	221.3%	36.0%	16.5%	14.3%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Gross profit margin	17.2%	13.4%	15.0%	16.2%	16.3%	16.4%
Operating margin	6.3%	2.9%	3.9%	5.1%	5.2%	5.2%
Return on equity (ROE)	11.6%	2.0%	6.0%	7.5%	8.3%	8.8%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Current ratio (x)	1.6	1.6	1.6	1.7	1.6	1.7
Receivable turnover days	77.7	73.7	84.0	72.5	90.8	75.0
Inventory turnover days	70.9	92.3	93.9	95.2	95.4	95.5
Payable turnover days	109.6	100.8	108.8	99.2	119.6	102.1
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/E	12.1	55.1	13.4	10.4	8.9	7.8
P/B	1.3	1.1	0.8	0.7	0.7	0.7
Div yield (%)	0.0	39.9	164.4	212.4	247.4	282.9

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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