

# FIT Hon Teng (6088 HK)

## Recent correction overdone; 3Q23 earnings recovery on track

We spoke to FIT's mgmt. following share price correction of 11% yesterday (24 Oct), mainly due to news about inspections by Chinese tax authorities and Natural Resource Department on Hon Hai's key operating sites in China. Mgmt. stated that tax inspection was part of the annual routine exercise and all businesses operate as normal. In our view, despite ongoing overhang on the inspections, share price correction is overdone and valuation becomes attractive at 7.0x/5.6x FY23/24E P/E (1-sd below 5-year avg.), compared to 24%/25% EPS growth in FY24/25E. We are also positive on FIT's 3Q23 results on 9 Nov. We estimate 3Q revenue/net profit to continue QoQ recovery with -8%/+2% YoY (vs. -12%/-99% YoY in 2Q23), largely in-line with guidance. Looking into 2H23E, we expect earnings recovery to continue backed by better product mix (CPU socket, DDR5/high-speed connectors, auto deal) and share gain in iPhone 15. Reiterate BUY. Upcoming catalysts include 3Q23 results on 9 Nov, server product launch, auto biz integration and TWS project wins.

- **3Q23 preview: QoQ earnings recovery on track.** We estimate 3Q23E revenue/net profit of US\$1,176mn/50.5mn (-8%/+2% YoY). By segment, we expect smartphone/networking/computing/EV mobility/system product to deliver -10%/-35%/+13%/+90%/-10% YoY, given weak smartphone/CE demand along with product mix changes in networking segment. Computing segment is boosted by new product orders and mild PC market recovery, while EV mobility segment will benefit from auto deal consolidation. We expect 3Q23 net margin will recover to 4.3% (vs. -1.1%/0.04% in 1Q/2Q23) backed by improving product mix and less expense burden.
- **2H23E outlook: auto business consolidation, iPhone launch, new CPU socket and DDR5 connectors.** Mgmt. guided higher-margin auto business consolidation will accelerate margin recovery in 2H23E, and we also expect revenue upside from new CPU socket, DDR5 connector and new iPhone launch in 2H23E. In terms of opex, we estimate FIT's opex ratio to peak at 14% in FY23E and then moderate to 13.2%/12.8% in FY24/25E.
- **Attractive risk/reward after recent correction; Reiterate BUY.** While overhang over inspection may remain in the near term, we think current valuation at 7.0x/5.6x FY23/24E P/E is attractive (1-sd below 5-year avg.), given our positive view on 3Q23 earnings recovery and multiple growth drivers in FY24. We maintain our TP of HK\$2.06 based on 11x FY24E P/E (33% below 5-year hist. avg.). Upcoming catalysts include 3Q23 results on 9 Nov, new product ramp-up, auto business consolidation and TWS order wins.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	4,490	4,531	4,345	4,841	5,327
YoY growth (%)	4.1	0.9	(4.1)	11.4	10.0
Net profit (US\$ mn)	136.8	170.3	134.9	167.9	209.1
YoY growth (%)	221.3	24.5	(20.8)	24.4	24.5
EPS (Reported) (US\$ cents)	2.04	2.42	1.94	2.41	3.00
Consensus EPS (US\$)	n/a	n/a	2.25	2.60	3.04
P/E (x)	13.4	6.6	7.0	5.6	4.5
P/B (x)	0.8	0.5	0.4	0.4	0.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	6.0	7.2	5.6	6.5	7.6
Net gearing (%)	n/a	n/a	n/a	n/a	n/a

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$2.06
(Previous TP)	HK\$2.06)
Up/Downside	94.5%
Current Price	HK\$1.06

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### Stock Data

Mkt Cap (HK\$ mn)	7,703.0
Avg 3 mths t/o (HK\$ mn)	6.1
52w High/Low (HK\$)	2.46/0.92
Total Issued Shares (mn)	7267.0
Source: FactSet	

### Shareholding Structure

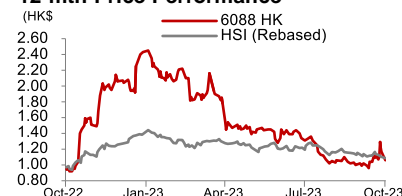
Foxconn Far East Ltd	71.1%
Lu Sung-Ching	5.5%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	3.9%	10.4%
3-mth	-19.1%	-11.1%
6-mth	-31.6%	-19.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

1. FIT Hon Teng (6088 HK)-Weak 1H23 in-line; Positive outlook in 2H23E ([link](#))
2. FIT Hon Teng (6088 HK)-NDR takeaways: Multiple growth drivers and margin recovery in FY24/25E; Maintain BUY ([link](#))
3. FIT Hon Teng (6088 HK) - Recent sell-off overdone; Positive on investments and margin recovery in FY24/25E ([link](#))
4. FIT Hon Teng (6088 HK) - Weak 1Q23 as expected; Expect multiple drivers from iPhone/CPU socket/400G/EV in 2H23E ([link](#))

## 3Q23 Preview

Figure 1: 3Q23 Preview

(US\$ 000)	1Q23	2Q23	3Q23E	4Q23E	FY23E
<b>Smartphones</b>	<b>230,000</b>	<b>215,883</b>	<b>360,900</b>	<b>302,938</b>	<b>1,109,721</b>
...YoY	-20%	-34%	-10%	23%	-12%
<b>Networking</b>	<b>105,000</b>	<b>113,936</b>	<b>146,250</b>	<b>177,589</b>	<b>542,775</b>
...YoY	-44%	-34%	-35%	6%	-28%
<b>Computing</b>	<b>170,000</b>	<b>207,342</b>	<b>235,040</b>	<b>248,311</b>	<b>860,693</b>
...YoY	-19%	3%	13%	24%	5%
<b>EV Mobility</b>	<b>38,000</b>	<b>33,644</b>	<b>74,100</b>	<b>145,944</b>	<b>291,688</b>
...YoY	-12%	16%	90%	249%	91%
<b>Systems Products</b>	<b>273,000</b>	<b>305,893</b>	<b>315,900</b>	<b>454,143</b>	<b>1,348,936</b>
...YoY	0%	9%	-10%	5%	1%
<b>Others</b>	<b>46,000</b>	<b>45,382</b>	<b>43,350</b>	<b>56,260</b>	<b>190,992</b>
...YoY	-10%	18%	-15%	-16%	-8%
<b>Revenue</b>	<b>862,000</b>	<b>922,080</b>	<b>1,175,540</b>	<b>1,385,186</b>	<b>4,344,806</b>
...YoY	-18%	-12%	-8%	20%	-4%
<b>Net profit</b>	<b>(9,297)</b>	<b>345</b>	<b>50,548</b>	<b>84,935</b>	<b>135,483</b>
NPM (%)	-1.1%	0.0%	4.3%	6.1%	3%
...YoY	-130%	-99%	2%	147%	-20%

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(US\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,345	4,841	5,327	4,610	4,977	5,409	-6%	-3%	-2%
Gross profit	803	854	941	821	878	962	-2%	-3%	-2%
Operating profit	250	263	312	278	279	312	-10%	-6%	0%
Net profit	135	169	210	157	181	207	-14%	-7%	2%
EPS (USD cents)	1.94	2.41	3.00	2.25	2.60	3.04	-14%	-7%	-1%
Gross margin	18.5%	17.6%	17.7%	17.8%	17.6%	17.8%	0.7 ppt	0 ppt	-0.1 ppt
Operating margin	5.8%	5.4%	5.9%	6.0%	5.6%	5.8%	-0.3 ppt	-0.2 ppt	0.1 ppt
Net Margin	3.1%	3.5%	3.9%	3.4%	3.6%	3.8%	-0.3 ppt	-0.2 ppt	0.1 ppt

Source: Company data, CMBIGM estimates

Figure 3: Revenue breakdown

US\$ 000	FY22	1H23	2H23E	FY23E	FY24E	FY25E
<b>Computing</b>	<b>819,708</b>	<b>377,342</b>	<b>483,351</b>	<b>860,693</b>	<b>946,763</b>	<b>1,069,842</b>
...YoY	2%	-8%	19%	5%	10%	13%
<b>Smartphones</b>	<b>1,261,047</b>	<b>445,883</b>	<b>663,838</b>	<b>1,109,721</b>	<b>1,143,013</b>	<b>1,200,164</b>
...YoY	-3%	-27%	3%	-12%	3%	5%
<b>Networking</b>	<b>753,854</b>	<b>218,936</b>	<b>323,839</b>	<b>542,775</b>	<b>569,914</b>	<b>598,409</b>
...YoY	-14%	-40%	-17%	-28%	5%	5%
<b>EV Mobility</b>	<b>152,814</b>	<b>71,644</b>	<b>220,044</b>	<b>291,688</b>	<b>501,012</b>	<b>623,261</b>
...YoY	10%	-1%	172%	91%	72%	24%
EV business	152,814	71,644	20,044	91,688	100,857	110,943
Prettl SWH	-	-	200,000	200,000	400,155	512,318
<b>System Products</b>	<b>1,335,580</b>	<b>578,893</b>	<b>770,043</b>	<b>1,348,936</b>	<b>1,483,829</b>	<b>1,632,212</b>
...YoY	20%	5%	-2%	1%	10%	10%
<b>Others</b>	<b>207,600</b>	<b>91,382</b>	<b>99,610</b>	<b>190,992</b>	<b>196,722</b>	<b>202,623</b>
...YoY	-17%	2%	-16%	-8%	3%	3%
<b>Total</b>	<b>4,530,603</b>	<b>1,784,080</b>	<b>2,560,726</b>	<b>4,344,806</b>	<b>4,841,252</b>	<b>5,326,512</b>
...YoY	<b>0.9%</b>	<b>-15.1%</b>	<b>5.4%</b>	<b>-4.1%</b>	<b>11.4%</b>	<b>10.0%</b>

Source: Company data, CMBIGM estimates

**Figure 4: P&L forecast**

US\$ mn	FY22	1H23	2H23E	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>4,531</b>	<b>1,784</b>	<b>2,561</b>	<b>4,345</b>	<b>4,841</b>	<b>5,327</b>
...YoY	0.9%	-15.1%	5.4%	-4.1%	11.4%	10.0%
Cost of sales	-3,763	(1,501)	(2,040)	(3,541)	(3,987)	(4,386)
<b>Gross profit</b>	<b>768</b>	<b>283</b>	<b>520</b>	<b>803</b>	<b>854</b>	<b>941</b>
<b>GPM (%)</b>	<b>17%</b>	<b>16%</b>	<b>20%</b>	<b>18%</b>	<b>18%</b>	<b>18%</b>
...YoY	14.1%	-19.3%	24.8%	4.6%	6.3%	10.2%
SG&A	-223	(117)	(200)	(317)	(315)	(325)
...% of rev	-4.9%	-6.6%	-7.8%	-7.3%	-6.5%	-6.1%
R&D	-296	(139)	(152)	(291)	(324)	(357)
...% of rev	-6.5%	-7.8%	-5.9%	-6.7%	-6.7%	-6.7%
<b>Operating profit</b>	<b>307</b>	<b>47</b>	<b>202</b>	<b>250</b>	<b>263</b>	<b>312</b>
OPM (%)	6.8%	2.6%	7.9%	5.8%	5.4%	5.9%
...YoY	74.0%	-60.7%	8.1%	-18.5%	5.1%	18.6%
<b>Net profit</b>	<b>170</b>	<b>(9)</b>	<b>144</b>	<b>135</b>	<b>169</b>	<b>210</b>
NPM (%)	3.7%	-0.5%	5.6%	3.1%	3.5%	3.9%
...YoY	23.2%	-110.5%	75.6%	-20.1%	24.4%	24.5%

Source: Company data, CMBIGM estimates

## Valuation

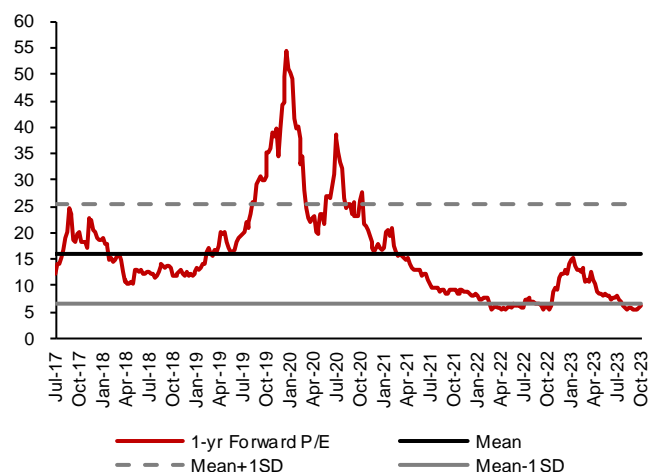
### Maintain BUY with TP of HK\$2.06

Our 12m TP of HK\$ 2.06 is based on 11x FY24E P/E (33% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and probability recovery. Trading at 7.0x/5.6x FY23/24E P/E, we think risk-reward is attractive. Upcoming catalysts include auto business integration progress, Apple share gain and improving margins.

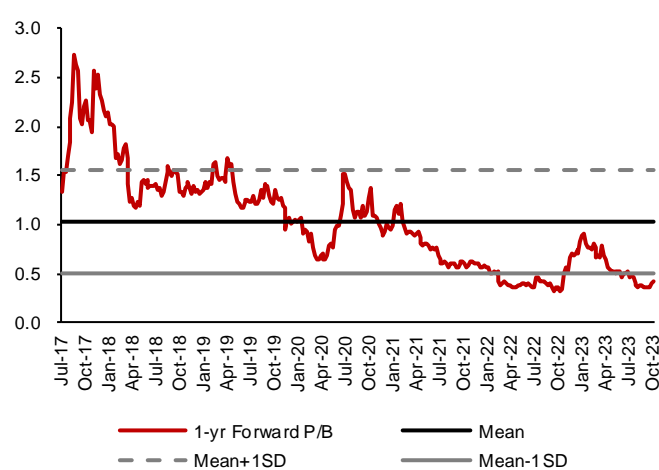
**Figure 5: Peers' valuation**

			Market Cap	Price	TP	Up/ Down	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	US\$(mn)	(LC)	(LC)	-side	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Global Connectors												
TE	TEL US	NR	36,433	116.05	NA	NA	17.3	15.5	3.2	2.9	19.1	19.9
Amphenol	APH US	NR	47,227	79.18	NA	NA	27.0	24.6	5.9	5.3	24.2	23.9
Fabrinet	FN US	NR	5,897	162.94	NA	NA	21.4	20.2	4.0	3.5	20.6	19.0
Aviat	6807 JP	NR	1,755	2848.00	NA	NA	16.8	20.0	1.5	1.4	9.4	7.6
Hirose	6806 JP	NR	4,193	17330.00	NA	NA	17.1	20.6	1.7	1.7	10.1	8.3
Luxshare	002475 CH	BUY	30,642	31.34	47.0	50%	20.2	16.0	2.2	2.0	10.9	12.3
Foxconn	2354 TT	NR	2,327	53.10	NA	NA	12.2	9.8	0.5	0.5	5.8	7.0
Hon Hai	2317 TT	NR	42,212	98.30	NA	NA	11.2	9.2	0.9	0.8	8.3	9.5
Average							17.1	16.2	2.3	2.1	12.8	12.8
China technology												
FIT Hon Teng	6088 HK	BUY	988	1.06	2.06	94.3%	7.0	5.6	0.4	0.4	5.6	6.5
AAC Tech	2018 HK	HOLD	2,133	13.92	14.0	1%	24.5	14.0	0.7	0.6	2.7	4.6
Sunny Optical	2382 HK	HOLD	8,868	63.25	78.3	24%	34.2	22.2	2.7	2.5	7.8	11.2
Tongda	698 HK	BUY	124	0.10	0.2	70%	5.6	3.4	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	10,340	35.90	42.0	17%	20.9	16.9	2.5	2.2	11.9	13.0
Q tech	1478 HK	BUY	575	3.80	3.6	-5%	13.6	7.1	0.8	0.7	5.9	10.3
TK Group	2283 HK	BUY	146	1.37	3.1	126%	4.9	3.6	0.6	0.6	13.3	17.0
YOFC	6869 HK	NR	2,154	10.10	NA	NA	5.4	4.9	0.7	0.6	11.6	11.8
Cowell	1415 HK	NR	1,863	17.16	NA	NA	27.8	16.2	4.3	3.4	15.2	22.9
Average							16.0	11.3	1.4	1.3	8.4	11.2

Source: Bloomberg, CMBIGM

**Figure 6: 12M forward P/E band**

Source: Company data, CMBIGM

**Figure 7: 12M forward P/B band**

Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
<b>Revenue</b>	<b>4,315</b>	<b>4,490</b>	<b>4,531</b>	<b>4,345</b>	<b>4,841</b>	<b>5,327</b>
Cost of goods sold	(3,735)	(3,817)	(3,763)	(3,541)	(3,987)	(4,386)
<b>Gross profit</b>	<b>580</b>	<b>673</b>	<b>768</b>	<b>803</b>	<b>854</b>	<b>941</b>
Selling expense	(97)	(105)	(93)	(143)	(131)	(138)
Admin expense	(134)	(161)	(130)	(174)	(184)	(186)
R&D expense	(235)	(301)	(296)	(291)	(324)	(357)
Others	11	70	58	55	48	53
<b>Operating profit</b>	<b>125</b>	<b>177</b>	<b>307</b>	<b>250</b>	<b>263</b>	<b>312</b>
Share of (losses)/profits of associates/JV	(9)	(8)	(46)	(46)	(46)	(46)
Interest expense	1	(2)	(14)	(12)	(10)	(8)
<b>Pre-tax profit</b>	<b>117</b>	<b>167</b>	<b>248</b>	<b>193</b>	<b>207</b>	<b>258</b>
Income tax	(74)	(31)	(78)	(58)	(39)	(49)
Minority interest	0	(1)	1	(1)	(1)	(1)
<b>Net profit</b>	<b>43</b>	<b>137</b>	<b>170</b>	<b>135</b>	<b>168</b>	<b>209</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
<b>Current assets</b>	<b>2,848</b>	<b>3,034</b>	<b>2,764</b>	<b>2,487</b>	<b>2,346</b>	<b>2,643</b>
Cash & equivalents	766	769	914	436	238	195
Account receivables	872	1,033	720	961	912	1,149
Inventories	944	982	967	927	1,033	1,137
ST bank deposits	126	98	66	66	66	66
<b>Non-current assets</b>	<b>1,791</b>	<b>1,973</b>	<b>1,783</b>	<b>2,238</b>	<b>2,754</b>	<b>2,682</b>
PP&E	728	823	753	1,208	1,723	1,652
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
<b>Total assets</b>	<b>4,639</b>	<b>5,007</b>	<b>4,547</b>	<b>4,725</b>	<b>5,100</b>	<b>5,326</b>
<b>Current liabilities</b>	<b>1,790</b>	<b>1,937</b>	<b>1,539</b>	<b>1,582</b>	<b>1,789</b>	<b>1,806</b>
Short-term borrowings	604	690	453	453	453	453
Account payables	1,032	1,138	971	1,014	1,221	1,238
Tax payable	129	94	98	98	98	98
Other current liabilities	26	15	18	18	18	18
<b>Non-current liabilities</b>	<b>659</b>	<b>674</b>	<b>661</b>	<b>661</b>	<b>661</b>	<b>661</b>
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
<b>Total liabilities</b>	<b>2,449</b>	<b>2,611</b>	<b>2,200</b>	<b>2,243</b>	<b>2,450</b>	<b>2,467</b>
Share capital	135	139	142	142	142	142
Other reserves	2,145	2,348	2,295	2,430	2,598	2,807
<b>Total shareholders equity</b>	<b>2,190</b>	<b>2,396</b>	<b>2,347</b>	<b>2,482</b>	<b>2,650</b>	<b>2,859</b>
Minority interest	3	1	2	2	2	2
<b>Total equity and liabilities</b>	<b>4,639</b>	<b>5,007</b>	<b>4,547</b>	<b>4,725</b>	<b>5,100</b>	<b>5,326</b>

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	117	167	248	193	207	258
Depreciation & amortization	241	146	270	345	434	472
Tax paid	(39)	(31)	(78)	(58)	(39)	(49)
Change in working capital	(279)	(93)	161	(158)	150	(324)
Others	74	(104)	0	0	0	0
<b>Net cash from operations</b>	<b>115</b>	<b>85</b>	<b>602</b>	<b>322</b>	<b>752</b>	<b>357</b>
<b>Investing</b>						
Capital expenditure	(335)	(241)	(200)	(800)	(950)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(21)	461	0	0	0	0
<b>Net cash from investing</b>	<b>(356)</b>	<b>220</b>	<b>(200)</b>	<b>(800)</b>	<b>(950)</b>	<b>(400)</b>
<b>Financing</b>						
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
<b>Net cash from financing</b>	<b>71</b>	<b>120</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	892	766	769	914	436	238
Exchange difference	43	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>766</b>	<b>769</b>	<b>914</b>	<b>436</b>	<b>238</b>	<b>195</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	(1.3%)	4.1%	0.9%	(4.1%)	11.4%	10.0%
Gross profit	(23.1%)	16.1%	14.1%	4.6%	6.3%	10.2%
Operating profit	(54.7%)	41.6%	74.0%	(18.5%)	5.1%	18.6%
Net profit	(81.8%)	221.3%	24.5%	(20.8%)	24.4%	24.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	13.4%	15.0%	16.9%	18.5%	17.6%	17.7%
Operating margin	2.9%	3.9%	6.8%	5.8%	5.4%	5.9%
Return on equity (ROE)	2.0%	6.0%	7.2%	5.6%	6.5%	7.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	na	na	na	0.0	0.0	0.0
Current ratio (x)	1.6	1.6	1.8	1.6	1.3	1.5
Receivable turnover days	73.7	84.0	58.0	80.7	68.8	78.7
Inventory turnover days	92.3	93.9	93.8	95.6	94.6	94.6
Payable turnover days	100.8	108.8	94.2	104.5	111.8	103.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	55.1	13.4	6.6	7.0	5.6	4.5
P/B	1.1	0.8	0.5	0.4	0.4	0.3
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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