

FIT Hon Teng (6088 HK)

Upbeat 3-year guidance reaffirmed our positive view; Raise TP to HK\$4.38

We raise TP to HK\$4.38 (40% upside) following a strong set of three-year guidance (2025-27) announced for the first time: 1) 20% revenue CAGR during FY25-27E, 2) GPM/OPM target of 22%/8% by FY27E. Mgmt. reiterated key growth drivers into 2025-27: 1) AI server/networking: biz momentum backed by GB200 ramp and product portfolio expansion (e.g. backplane, optical modules), 2) consolidation of the Auto-Kabel Group deal and improving efficiency, and 3) AirPods: capacity ramp in India plant and order wins. We lift our FY25/26E EPS by 3%/5% to factor in 3Q results and stronger guidance. Reiterate BUY. Catalysts includes GB200 AI server component order wins, AirPods shipment progress and Auto-Kabel M&A progress.

■ **3Q24 in-line with accelerated margin recovery.** On the earnings call, mgmt. attributed solid 3Q24 results to solid growth of AI products offsetting overall weakness in consumer electronics. 3Q24 GPM came in at 21.7% despite a weaker EV segment, and core OPM reached 8.2% (vs. 1Q/2Q24 2.5%/4.1%), thanks to efforts to streamline production costs, efficiency improvements and better expense control. For 4Q24/2024E, mgmt. reiterated guidance of high single-digit revenue growth, GPM of 20%+, and OPM target of 4.5% (vs prior 5.0%). Overall, we estimate revenue/ net profit to grow 9%/43% YoY in FY24E.

■ **FY25-27E 3-year guidance: 20% revenue CAGR, 22%/8% GPM/OPM target, backed by AI server/Mobility/Audio products.** Mgmt. announced a solid set of 3-year guidance for the first time, which suggested their strong confidence in product roadmap and execution of the “3+3” strategy. Looking ahead to 4Q24E, for AI server, mgmt. expects power busbar and CDU liquid cooling connectors to start delivery in 4Q24E on the top of interconnectors/cables, while GB200 backplane connectors/cables are under evaluation with the customers. For EV mobility, integration with Auto-Kabel is about to close and contribute meaningful revenue in FY25E. For AirPods, the first production line in India is on track to start mass production in early FY25E, and the second line will begin construction in 1H25E.

■ **Promising growth with attractive valuation; Raise TP to HK\$4.38.** We believe the market reacted positively after FIT announced FY25-27E guidance and solid business outlook. We lift our FY25/26E EPS by 3%/5% to factor in 3Q results and stronger guidance. The stock now trades at 9.3x/7.1x FY25/26E P/E, which is attractive compared to 67%/31% EPS growth. Reiterate BUY with new TP of HK\$ 4.38 (the same 13x FY25E P/E).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	4,531	4,196	4,555	5,896	7,131
YoY growth (%)	0.9	(7.4)	8.6	29.4	20.9
Net profit (US\$ mn)	170.1	129.6	184.2	308.1	403.2
YoY growth (%)	24.5	(23.8)	42.2	67.2	30.9
EPS (Reported) (US\$ cents)	2.42	1.82	2.59	4.34	5.67
Consensus EPS (US\$)	N/A	N/A	2.60	3.94	4.76
P/E (x)	16.7	22.2	15.6	9.3	7.1
P/B (x)	1.1	1.1	1.1	1.0	0.9
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	7.2	5.4	7.3	11.1	12.9
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$4.38
(Previous TP)	HK\$4.25)
Up/Downside	39.6%
Current Price	HK\$3.14

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Stock Data

Mkt Cap (HK\$ mn)	22,818.4
Avg 3 mths t/o (HK\$ mn)	94.7
52w High/Low (HK\$)	3.73/0.90
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

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

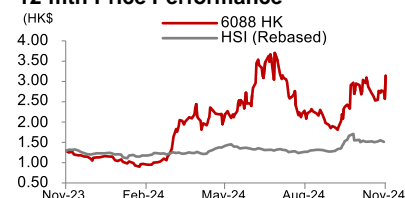
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.4%	14.1%
3-mth	38.9%	20.4%
6-mth	43.4%	38.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1. FIT Hon Teng (6088 HK) first take: Earnings in-line with solid margin recovery; Focus on GB200 products in 4Q24E- 13 Nov 2024 ([link](#))
2. FIT Hon Teng (6088 HK)-Beneficiary of GB200 server ramp in 4Q24E; Assessing the AI server opportunity- 23 Oct 2024 ([link](#))
3. FIT Hon Teng (6088 HK)-2Q24 in-line; Upbeat guidance on power busbar and liquid cooling order wins- 14 Aug 2024 ([link](#))

3Q24 Results review

Figure 1 3Q24 results review

(US\$ mn)	3Q23	4Q23	1Q24	2Q24	3Q24	YoY	CMBIGM		Consensus	
							FY24E	% Track	FY24E	% Track
Revenue	1,165	1,247	965	1,102	1,174	0.8%	4,555	71.2%	4,642	69.8%
Gross profit	260	264	196	225	255	-1.9%	942	71.8%	937	72.2%
Operating profit	86	91	24	45	96	11.6%	321	51.5%	313	52.8%
Net profit	55	74	10	22	68	23.9%	184	54.7%	182	55.3%
EPS (USD cents)	0.77	1.18	0.14	0.32	0.94	22.1%	2.59	54.0%	2.60	53.8%
Gross margin	22.3%	21.2%	20.3%	20.4%	21.7%	-0.6ppt	20.7%		20.2%	
Operating margin	7.4%	7.3%	2.5%	4.1%	8.2%	0.8ppt	7.0%		6.7%	
Net Margin	4.7%	5.9%	1.1%	2.0%	5.8%	1.1ppt	4.0%		3.9%	

Source: Bloomberg, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(US\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,555	5,896	7,131	4,642	5,783	6,626	-2%	2%	8%
Gross profit	942	1,245	1,528	937	1,196	1,381	1%	4%	11%
Operating profit	321	479	601	313	436	536	3%	10%	12%
Net profit	184	307	402	182	273	333	1%	13%	21%
EPS (USD cents)	2.59	4.34	5.67	2.60	3.94	4.76	0%	10%	19%
Gross margin	20.7%	21.1%	21.4%	20.2%	20.7%	20.8%	0.5 ppt	0.4 ppt	0.6 ppt
Operating margin	7.0%	8.1%	8.4%	6.7%	7.5%	8.1%	0.3 ppt	0.6 ppt	0.3 ppt
Net Margin	4.0%	5.2%	5.6%	3.9%	4.7%	5.0%	0.1 ppt	0.5 ppt	0.6 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: CMBIGM earnings revisions

(US\$ mn)	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,555	5,896	7,131	4,677	6,117	7,347	-3%	-4%	-3%
Gross profit	942	1,245	1,528	965	1,268	1,546	-2%	-2%	-1%
Operating profit	321	479	601	328	473	584	-2%	1%	3%
Net profit	184	307	402	183	298	384	0%	3%	5%
EPS (USD cents)	2.59	4.34	5.67	2.58	4.20	5.42	0%	3%	5%
Gross margin	20.7%	21.1%	21.4%	20.6%	20.7%	21.0%	0 ppt	0.4 ppt	0.4 ppt
Operating margin	7.0%	8.1%	8.4%	7.0%	7.7%	7.9%	0 ppt	0.4 ppt	0.5 ppt
Net Margin	4.0%	5.2%	5.6%	3.9%	4.9%	5.2%	0.1 ppt	0.3 ppt	0.4 ppt

Source: CMBIGM estimates

Figure 4: Revenue breakdown

US\$ 000	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Smartphones	1,261,047	1,044,335	415,228	514,230	929,458	975,931	1,034,487
...YoY	-3%	-17%	-7%	-14%	-11%	5%	6%
Networking	753,854	424,793	260,729	414,692	675,421	938,453	1,313,773
...YoY	-14%	-44%	19%	101%	59%	39%	40%
Traditional server		382,314			420,545	454,189	490,524
AI server		42,479			254,876	484,264	823,249
Computing	819,708	773,285	378,226	410,525	788,751	851,851	937,036
...YoY	2%	-6%	0%	4%	2%	8%	10%
Mobility	152,814	305,098	227,270	247,884	475,154	929,234	978,175
...YoY	10%	100%	217%	6%	56%	96%	5%
EV business	152,814	137,553	73,793	43,127	116,920	123,935	132,611
Volterra	-	167,545	153,477	204,757	358,234	376,145	394,953
AK Group						429,153	450,611
Systems Products	1,335,580	1,415,280	671,576	793,468	1,465,044	1,946,023	2,600,244
...YoY	20%	6%	16%	-5%	4%	33%	34%
AirPods					233,750	591,600	1,178,100
Others					1,231,294	1,354,423	1,422,144
Others	207,600	232,759	113,731	107,390	221,121	254,289	267,004
...YoY	-17%	12%	24%	-24%	-5%	15%	5%
Total	4,530,603	4,195,550	2,066,760	2,488,188	4,554,948	5,895,781	7,130,718
...YoY	0.9%	-7.4%	15.8%	3.2%	8.6%	29.4%	20.9%

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

US\$ mn	FY22	FY23	1H24	2H24E	FY24E	FY25E	FY26E
Revenue	4,531	4,196	2,067	2,488	4,555	5,896	7,131
...YoY	0.9%	-7.4%	15.8%	3.2%	8.6%	29.4%	20.9%
Cost of sales	-3,763	-3,388	-1,646	(1,968)	(3,613)	(4,651)	(5,603)
Gross profit	768	807	421	521	942	1,245	1,528
GPM (%)	17%	19%	20%	21%	21%	21%	21%
...YoY	14.1%	5.1%	48.8%	-0.6%	16.7%	32.2%	22.7%
SG&A	-223	-295	-180	(157)	(337)	(407)	(485)
...% of rev	-4.9%	-7.0%	-8.7%	-6.3%	-7.4%	-6.9%	-6.8%
R&D	-296	-308	-172	(181)	(353)	(430)	(513)
...% of rev	-6.5%	-7.3%	-8.3%	-7.3%	-7.8%	-7.3%	-7.2%
Operating profit	307	263	93	227	321	479	601
OPM (%)	6.8%	6.3%	4.5%	9.1%	7.0%	8.1%	8.4%
...YoY	74.0%	-14.4%	97.5%	5.5%	22.0%	49.2%	25.6%
Net profit	169	129	33	151	184	307	402
NPM (%)	3.7%	3.1%	1.6%	6.1%	4.0%	5.2%	5.6%
...YoY	23.2%	-23.9%	263.3%	9.6%	42.5%	67.1%	30.9%

Source: Company data, CMBIGM estimates

Assessing FIT's AI server opportunity:

Figure 6: Scenario analysis of FIT NVDA AI server revenue (2025)

FIT NVDA AI server revenue (2025)	Bull	Base	Bear
NVDA AI server units			
GB200/GB300 rack shipment (NVL72-eq.)	50	40	30
NVL36/72 mix	6:1	6:1	6:1
... NVL72 racks ('000)	10	10	10
... NVL36 racks ('000)	80	60	40
# of Compute Trays ('000)	900	720	540
HGX/MGX AI server shipment (H100/H200/B200/B300A/B300)			
# of GPUs (H100/H200/B200/B300A/B300) ('000)	2,800	2,800	2,800
# of AI Servers (H100/H200/B200/B300A/B300) ('000)	350	350	350
GB200/GB300 AI Server revenue			
Compute tray: Connectors/cables (e.g. MCIO, MXIO, memory socket, PCIe)			
FIT content value per compute tray (US\$)	1,000	800	600
FIT share allocation	20%	20%	20%
Total revenue (US\$ '000)	180,000	115,200	64,800
Compute tray: components (e.g. power, thermal)			
FIT content value per compute tray (US\$)	300	300	300
FIT share allocation	5%	5%	5%
Total revenue (US\$ '000)	13,500	10,800	8,100
NVLink copper cables/connector			
... Content value per NVL72 rack (US\$)	80,000	70,000	60,000
... Content value per NVL36 rack (US\$)	56,000	49,000	42,000
TAM - Backplane cables/connectors (US\$ '000)	5,280,000	3,640,000	2,280,000
FIT share allocation	13%	8%	5%
Total revenue (US\$ '000)	686,400	291,200	114,000
Liquid Cooling: Components (e.g. cold plate, UQD, manifold)			
FIT content value per rack (US\$)	300	300	300
FIT share allocation	5%	5%	5%
Total revenue (US\$ '000)	750	600	450
GPU socket (GB300)			
GB300 shipment (2xGPU) ('000)	220	220	220
ASP (US\$)	30	30	30
TAM - GPU sockets (US\$ '000)	6,600	6,600	6,600
FIT share allocation	80%	70%	60%
Total revenue (US\$ '000)	5,280	4,620	3,960
FIT GB200/GB300 AI server revenue (US\$ '000)	885,930	422,420	191,310
HGX/MGX AI server (H100/H200/B200/B300A/B300) revenue			
Server connectors (e.g. MCIO, CPU/memory socket, PCIe)			
FIT's content value per server (US\$)	1,000	800	600
FIT's share allocation	20%	20%	20%
Total revenue (US\$ '000)	70,000	56,000	42,000
GPU sockets			
B300A/B300 shipments ('000)	418	418	418
ASP (US\$)	20	20	20
TAM - GPU sockets (US\$ '000)	8,360	8,360	8,360
FIT share allocation	80%	70%	60%
Total revenue (US\$ '000)	6,688	5,852	5,016
FIT HGX/MGX AI server revenue (US\$ '000)	76,688	61,852	47,016
Total NVDA AI server revenue (US\$ '000)	962,618	484,272	238,326

Source: CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$4.38

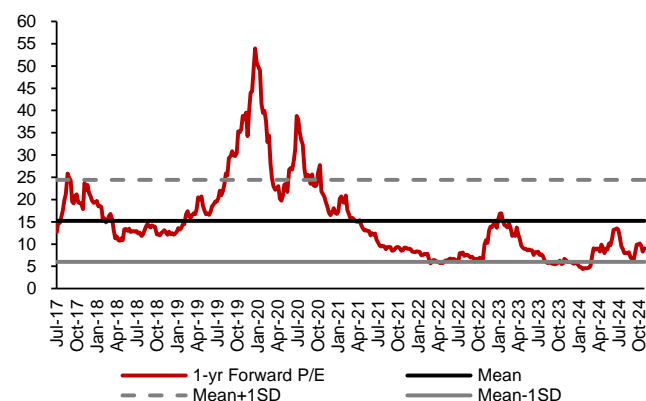
Our new TP of HK\$ 4.38 is based on the same 13x FY25E P/E, given accelerated growth on “3+3 Strategy” and profitability recovery. Trading at 9.3x/7.1x FY25/26E P/E, we think the risk-reward is attractive. Catalysts includes GB200 AI server component order wins, AirPods shipment progress and Auto-Kabel M&A progress.

Figure 7: Peers' valuation

			Market Cap	Price	TP	Up/ Down	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	(US\$mnn)	(LC)	(LC)	-side	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Global Connectors												
TE	TEL US	NR	45,882	153.37	NA	NA	20.3	19.0	3.7	3.6	19.1	18.9
Amphenol	APH US	NR	86,792	71.99	NA	NA	39.0	33.1	9.0	7.6	24.9	25.2
Fabrinet	FN US	NR	9,388	258.85	NA	NA	29.7	26.3	5.4	4.6	18.2	19.0
Aviat	6807 JP	NR	1,280	2820.00	NA	NA	18.5	15.1	1.4	1.4	7.5	9.6
Hirose	6806 JP	NR	4,266	18510.00	NA	NA	24.0	20.1	1.8	1.7	7.4	8.3
Luxshare	002475 CH	Buy	41,662	41.59	55.09	32%	22.1	18.1	3.5	3.0	16.0	16.4
Foxconn	2354 TT	NR	4,077	93.60	NA	NA	31.9	22.8	0.8	0.8	3.9	5.3
Hon Hai	2317 TT	NR	91,580	214.50	NA	NA	18.7	14.1	1.8	1.6	9.7	11.7
Average							25.5	21.1	3.4	3.0	13.3	14.3
China technology												
FIT Hon Teng	6088 HK	Buy	2,943	3.14	4.38	40%	15.6	9.3	1.1	1.0	7.3	11.1
AAC Tech	2018 HK	Buy	4,784	31.05	37.80	22%	19.8	15.8	1.4	1.3	7.0	8.2
Sunny Optical	2382 HK	Buy	7,860	55.85	72.52	30%	22.3	18.7	2.2	2.1	10.1	11.2
Tongda	698 HK	Buy	111	0.09	0.12	37%	29.7	4.5	0.1	0.1	0.4	2.7
BYDE	285 HK	Buy	8,574	29.60	44.41	50%	13.5	9.9	3.3	2.6	24.2	26.8
Q tech	1478 HK	Buy	804	5.28	6.43	22%	15.8	10.5	1.1	1.0	6.9	9.6
YOFC	6869 HK	NR	2,199	11.46	NA	NA	10.8	8.2	0.7	0.6	7.3	8.9
Cowell	1415 HK	NR	2,944	26.65	NA	NA	30.3	17.7	5.8	4.4	21.0	26.9
Average							18.1	11.0	1.8	1.5	11.0	13.6

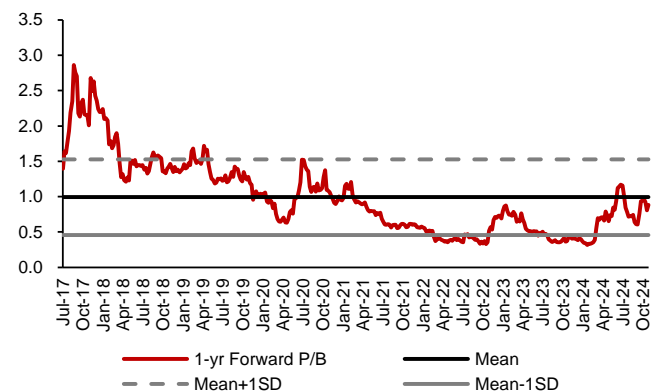
Source: Bloomberg, CMBIGM

Figure 8: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 9: 12M forward P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	4,490	4,531	4,196	4,555	5,896	7,131
Cost of goods sold	(3,817)	(3,763)	(3,388)	(3,613)	(4,651)	(5,603)
Gross profit	673	768	807	942	1,245	1,528
Selling expense	(105)	(93)	(105)	(128)	(147)	(178)
Admin expense	(161)	(130)	(191)	(210)	(259)	(307)
R&D expense	(301)	(296)	(308)	(353)	(430)	(513)
Others	70	58	61	69	71	71
Operating profit	177	307	263	321	479	601
Share of (losses)/profits of associates/JV	(8)	(46)	(50)	(38)	(38)	(38)
Interest expense	(2)	(14)	(33)	(33)	(30)	(26)
Pre-tax profit	167	248	179	250	411	538
Income tax	(31)	(78)	(50)	(65)	(103)	(134)
Minority interest	(1)	1	1	0	1	1
Net profit	137	170	130	184	308	403

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	3,034	2,764	3,112	2,794	3,793	4,266
Cash & equivalents	769	914	1,316	886	1,184	1,416
Account receivables	1,033	720	807	851	1,295	1,300
Inventories	982	967	802	870	1,127	1,363
ST bank deposits	98	66	4	4	4	4
Non-current assets	1,973	1,783	1,982	2,498	2,426	2,317
PP&E	823	753	900	1,416	1,344	1,235
Deferred income tax	133	131	126	126	126	126
Investment in JVs & assos	172	123	73	73	73	73
Intangibles	634	601	700	700	700	700
Other non-current assets	211	175	182	182	182	182
Total assets	5,007	4,547	5,094	5,291	6,219	6,583
Current liabilities	1,937	1,539	2,563	2,577	3,196	3,157
Short-term borrowings	690	453	1,383	1,383	1,383	1,383
Account payables	1,138	971	1,095	1,108	1,727	1,688
Tax payable	94	98	70	70	70	70
Other current liabilities	15	18	17	17	17	17
Non-current liabilities	674	661	93	93	93	93
Long-term borrowings	576	575	0	0	0	0
Obligations under finance leases	46	43	41	41	41	41
Other non-current liabilities	52	43	52	52	52	52
Total liabilities	2,611	2,200	2,656	2,670	3,289	3,250
Share capital	139	142	142	142	142	142
Other reserves	2,348	2,295	2,384	2,569	2,877	3,280
Total shareholders equity	2,396	2,347	2,437	2,622	2,930	3,333
Minority interest	1	2	3	3	3	3
Total equity and liabilities	5,007	4,547	5,094	5,291	6,219	6,583

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	167	248	179	250	411	538
Depreciation & amortization	251	232	220	434	472	509
Tax paid	(91)	(79)	(75)	(65)	(103)	(134)
Change in working capital	(257)	93	146	(99)	(82)	(280)
Others	15	63	103	0	0	0
Net cash from operations	85	556	574	519	698	632
Investing						
Capital expenditure	(216)	(113)	(243)	(950)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(4)	47	(167)	0	0	0
Net cash from investing	(220)	(66)	(410)	(950)	(400)	(400)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1)	(2)	(1)	0	0	0
Others	121	(268)	250	0	0	0
Net cash from financing	120	(270)	249	0	0	0
Net change in cash						
Cash at the beginning of the year	766	769	914	1,316	886	1,184
Exchange difference	19	(75)	(10)	0	0	0
Cash at the end of the year	769	914	1,316	886	1,184	1,416
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.1%	0.9%	(7.4%)	8.6%	29.4%	20.9%
Gross profit	16.1%	14.1%	5.1%	16.7%	32.2%	22.7%
Operating profit	41.2%	74.0%	(14.4%)	22.0%	49.2%	25.6%
Net profit	219.3%	24.5%	(23.8%)	42.2%	67.2%	30.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.0%	16.9%	19.2%	20.7%	21.1%	21.4%
Operating margin	3.9%	6.8%	6.3%	7.0%	8.1%	8.4%
Return on equity (ROE)	6.0%	7.2%	5.4%	7.3%	11.1%	12.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	na	na	0.0	0.0	0.0	na
Current ratio (x)	1.6	1.8	1.2	1.1	1.2	1.4
Receivable turnover days	84.0	58.0	70.2	68.2	80.2	66.6
Inventory turnover days	93.9	93.8	86.4	87.9	88.4	88.8
Payable turnover days	108.8	94.2	117.9	111.9	135.6	110.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	19.8	16.7	22.2	15.6	9.3	7.1
P/B	1.1	1.1	1.1	1.1	1.0	0.9
Div yield (%)	111.0	0.0	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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