

FIT Hon Teng (6088 HK)

Weak 1H23 in-line; Positive outlook in 2H23E

FIT Hon Teng announced 1H23 results with revenue of US\$ 1.78bn and net loss of US\$ 9mn, largely in-line with guidance and our [preview note](#), mainly due to weak seasonality, expense on digital transformation and networking product mix change. Mgmt. maintained FY23E guidance (revenue flat YoY, gross profit double-digit YoY increase, net income 5-15% YoY decline), and expected 2H23E earnings recovery driven by seasonality, new product ramp up and contribution from Voltaira. We trimmed FY23-25E EPS by 5-6% to reflect higher expense for business transformation. The stock now trades at 7.7x/6.2x FY23/24E P/E. Reiterate BUY with new TP of HK\$2.06 based on same 11x FY24E P/E. Upcoming catalysts include Prettl SWH's integration and TWS progress.

- 1H23 weakness as expected on slower revenue and higher expenses.**
 FIT 1H23 results came in at revenue of US\$ 1.78bn (-15% YoY) and net loss of US\$ 9mn, in-line with its earlier announcement and our preview note. By segment, smartphone/networking/computing/EV/system product sales increased -22%/-41%/-7%/-6%/+1% YoY. Smartphone/computing suffered from high base and soft market demand, while networking segment was impacted by product optimization and inventory destocking. EV business was affected by decline in smart key product due to product transition.
- Expect earnings turnaround in 2H23E; Opex ratio to decline in FY24E.**
 Despite short-term earnings pressure in 1H23, mgmt. expects new iPhone launch, better second-half consumer electronics seasonality, new CPU socket/DDR5 connector product ramp-up, and contribution from Voltaira consolidation will lead to revenue/earnings recovery 2H23E. Mgmt. also expects opex ratio to peak at 14% in FY23E and gradually recover to 13% in FY25E. Regarding overseas capacity expansion (India & Vietnam) and "3+3 Strategy" developments, mgmt. guided CAPEX of US\$ 800mn/950-980mn/400-430mn for FY23/24/25E, and we believe revenue from new businesses will start to deliver in FY24E.
- Attractive risk/reward; New product and overseas expansion as major growth drivers in FY24/25E.** We trimmed our FY23-15E EPS by 5-6% to reflect higher investments and expenses in near term. Our new TP of HK\$2.06 is based on same 11x FY24E P/E (33% below 5-year hist. avg.). Trading at 7.7x/6.2x FY23E/24E P/E (vs 16.7x for 5-year avg. P/E), we think risk-reward is extremely attractive. Upcoming catalysts include TWS order wins and Prettl integration progress.

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\$)	na	na	2.25	2.60	3.04
P/E (x)	13.4	6.6	7.7	6.2	5.0
P/B (x)	0.8	0.5	0.4	0.4	0.4
Yield (%)	164.4	0.0	0.0	0.0	0.0
ROE (%)	6.0	7.2	5.6	6.5	7.6
Net gearing (%)	na	na	na	na	na

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.06
(Previous TP)	HK\$2.18)
Up/Downside	76.2%
Current Price	HK\$1.17

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Stock Data

Mkt Cap (HK\$ mn)	8,502.4
Avg 3 mths t/o (HK\$ mn)	4.7
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%

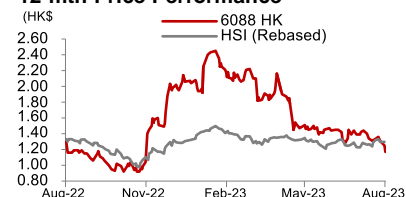
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.8%	-19.4%
3-mth	-22.5%	-18.0%
6-mth	-44.8%	-38.8%

Source: FactSet

12-mth Price Performance



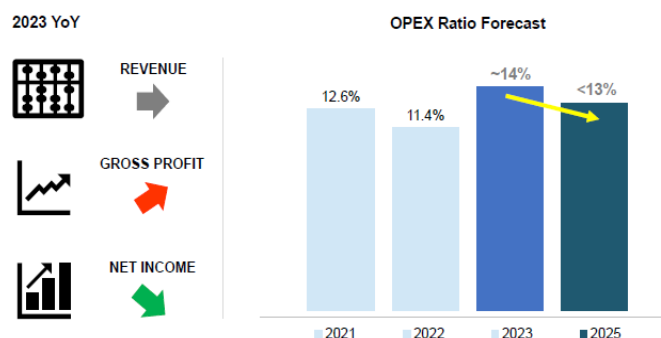
Source: FactSet

Related Reports:

- FIT Hon Teng (6088 HK) – 1H23 Preview: expect weakness in-line; Back-end loaded 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](#))

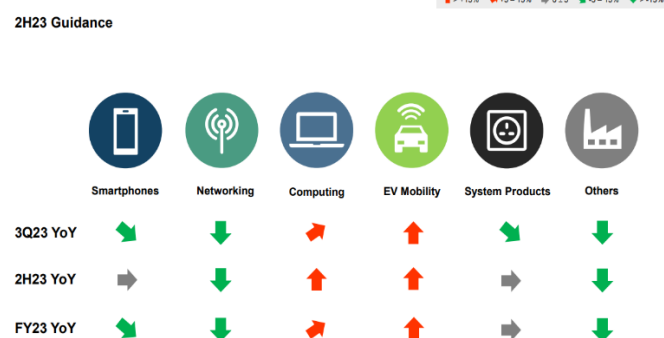
Focus Charts

Figure 1: FIT's full-year guidance and Opex forecast



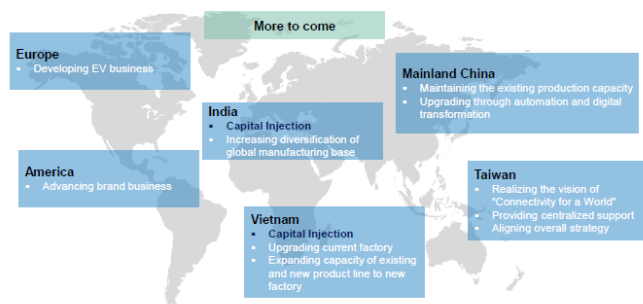
Source: Company data, CMBIGM estimates

Figure 2: FIT's guidance by segments



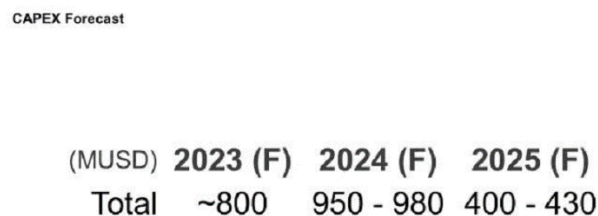
Source: Company data, CMBIGM estimates

Figure 3: FIT's global expansion plan



Source: Company data, CMBIGM estimates

Figure 4: FIT's CAPEX forecast



Source: Company data, CMBIGM estimates

Figure 5: FIT's "3+3 Strategy" execution update



Source: Company data, CMBIGM estimates

Figure 6: FIT's business opportunities in AI



Source: Company data, CMBIGM estimates

Earnings Revision

Figure 7: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,345	4,841	5,327	4,495	5,014	5,513	-3%	-3%	-3%
Gross profit	803	854	941	835	887	976	-4%	-4%	-4%
Operating profit	250	263	312	263	275	326	-5%	-4%	-4%
Net profit	135	169	210	144	178	221	-6%	-6%	-5%
EPS (USD cents)	1.94	2.41	3.00	2.06	2.55	3.16	-6%	-6%	-5%
Gross margin	18.5%	17.6%	17.7%	18.6%	17.7%	17.7%	-0.1 ppt	-0.1 ppt	-0.1 ppt
Operating margin	5.8%	5.4%	5.9%	5.8%	5.5%	5.9%	-0.1 ppt	-0.1 ppt	-0.1 ppt
Net Margin	3.1%	3.5%	3.9%	3.2%	3.6%	4.0%	-0.1 ppt	-0.1 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 8: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			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: Bloomberg, CMBIGM estimates

Figure 9: 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	542,775	569,914	598,409
...YoY		-14%	-28%	5%	5%
EV Mobility	138,894	152,814	291,688	501,012	623,261
...YoY		10%	91%	72%	24%
EV business		152,814	91,688	100,857	110,943
Prettl SWH		-	200,000	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	190,992	196,722	202,623
...YoY		-17%	-8%	3%	3%
Total	4,490,215	4,530,603	4,344,806	4,841,252	5,326,512
...YoY		0.9%	-4.1%	11.4%	10.0%

Source: Company data, CMBIGM estimates

Figure 10: P&L forecast

US\$ mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,315	4,490	4,531	4,345	4,841	5,327
...YoY	-1.3%	4.1%	0.9%	-4.1%	11.4%	10.0%
Cost of sales	-3,735	-3,817	-3,763	(3,541)	(3,987)	(4,386)
Gross profit	580	673	768	803	854	941
GPM (%)	13%	15%	17%	18%	18%	18%
...YoY	-23.1%	16.1%	14.1%	4.6%	6.3%	10.2%
SG&A	-230	-266	-223	(317)	(315)	(325)
...% of rev	-5.3%	-5.9%	-4.9%	-7.3%	-6.5%	-6.1%
R&D	-235	-301	-296	(291)	(324)	(357)
...% of rev	-5.4%	-6.7%	-6.5%	-6.7%	-6.7%	-6.7%
Operating profit	125	177	307	250	263	312
OPM (%)	2.9%	3.9%	6.8%	5.8%	5.4%	5.9%
...YoY	-54.7%	41.6%	74.0%	-18.5%	5.1%	18.6%
Net profit	43	138	170	135	169	210
NPM (%)	1.0%	3.1%	3.7%	3.1%	3.5%	3.9%
...YoY	-81.9%	223.8%	23.2%	-20.1%	24.4%	24.5%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.06

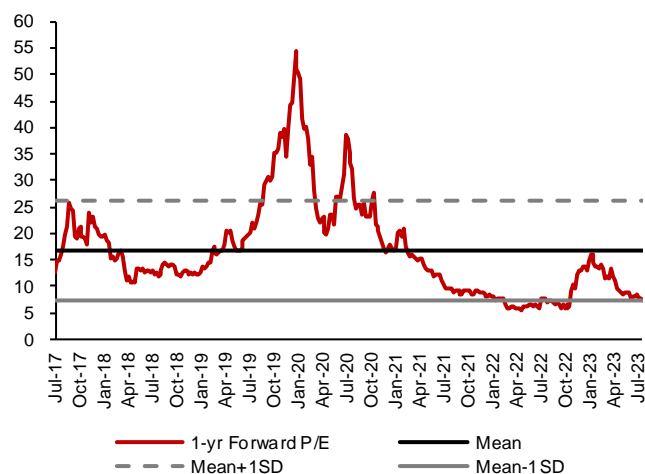
Our new 12m TP of HK\$ 2.06 is based on same 11x FY24E P/E (33% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and profitability recovery. Trading at 7.7x/6.2x FY23/24E P/E, we think risk-reward is attractive. Upcoming catalysts include Prettl integration progress, Apple share gain and improving margins.

Figure 11: 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	42,942	136.79	NA	NA	20.5	18.1	3.8	3.5	19.1	20.2
Amphenol	APH US	NR	52,601	88.19	NA	NA	30.3	27.9	6.6	6.0	24.5	24.4
Fabrinet	FN US	NR	4,505	124.12	NA	NA	16.3	15.8	3.1	2.6	20.6	18.1
Aviat	6807 JP	NR	1,830	2841.00	NA	NA	16.7	18.5	1.5	1.4	9.4	7.5
Hirose	6806 JP	NR	4,352	17200.00	NA	NA	16.9	18.6	1.7	1.6	10.1	9.1
Luxshare	002475 CH	BUY	34,399	34.82	48.0	38%	23.1	18.7	2.4	2.1	10.5	11.4
Foxconn	2354 TT	NR	2,517	56.60	NA	NA	12.1	11.4	0.5	0.5	5.7	5.9
Hon Hai	2317 TT	NR	48,155	110.50	NA	NA	12.6	10.0	1.0	0.9	8.2	9.9
Average							18.6	17.4	2.6	2.3	13.5	13.3
China technology												
FIT Hon Teng	6088 HK	BUY	1,092	1.17	2.06	76%	7.7	6.2	0.4	0.4	5.2	6.3
AAC Tech	2018 HK	HOLD	2,629	17.14	15.6	-9%	28.5	17.1	0.8	0.8	2.9	4.7
Sunny Optical	2382 HK	HOLD	9,791	69.75	78.3	12%	37.9	24.1	2.8	2.6	7.5	10.8
Tongda	698 HK	BUY	112	0.09	0.2	89%	4.1	2.9	0.1	0.1	1.8	3.8
BYDE	285 HK	BUY	8,680	30.10	31.7	5%	18.4	15.0	2.1	1.9	11.7	12.8
Q tech	1478 HK	BUY	494	3.26	3.6	10%	9.7	6.2	0.7	0.6	7.0	10.1
TK Group	2283 HK	BUY	157	1.47	3.4	130%	2.8	3.8	0.6	0.6	20.7	17.8
FIH	2083 HK	NR	800	0.79	NA	NA	20.2	10.1	0.5	0.4	2.2	4.4
YOFC	6869 HK	NR	2,423	11.30	NA	NA	5.8	5.2	0.7	0.7	11.6	11.8
Cowell	1415 HK	NR	1,446	13.30	NA	NA	14.9	10.2	3.2	2.5	23.6	25.5
Average							15.0	10.1	1.2	1.1	9.4	10.8

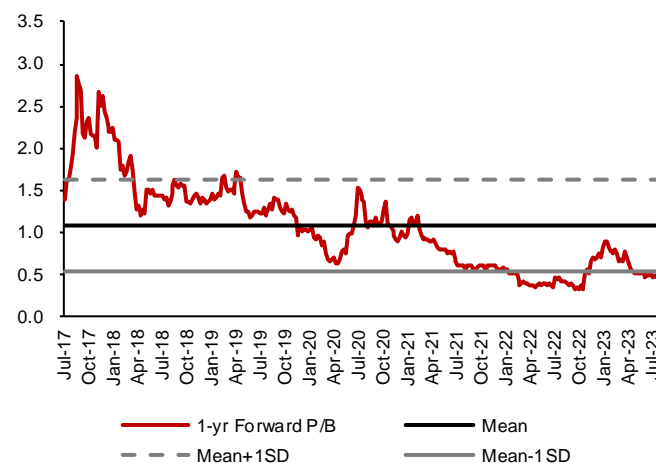
Source: Bloomberg, CMBIGM

Figure 12: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 13: 12M forward P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	4,315	4,490	4,531	4,345	4,841	5,327
Cost of goods sold	(3,735)	(3,817)	(3,763)	(3,541)	(3,987)	(4,386)
Gross profit	580	673	768	803	854	941
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
Operating profit	125	177	307	250	263	312
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	193	207	258
Income tax	(74)	(31)	(78)	(58)	(39)	(49)
Minority interest	0	(1)	1	(1)	(1)	(1)
Net profit	43	137	170	135	168	209

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	2,848	3,034	2,764	2,487	2,346	2,643
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
Non-current assets	1,791	1,973	1,783	2,238	2,754	2,682
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
Total assets	4,639	5,007	4,547	4,725	5,100	5,326
Current liabilities	1,790	1,937	1,539	1,582	1,789	1,806
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
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	2,243	2,450	2,467
Share capital	135	139	142	142	142	142
Other reserves	2,145	2,348	2,295	2,430	2,598	2,807
Total shareholders equity	2,190	2,396	2,347	2,482	2,650	2,859
Minority interest	3	1	2	2	2	2
Total equity and liabilities	4,639	5,007	4,547	4,725	5,100	5,326

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
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
Net cash from operations	115	85	602	322	752	357
Investing						
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
Net cash from investing	(356)	220	(200)	(800)	(950)	(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	436	238
Exchange difference	43	0	0	0	0	0
Cash at the end of the year	766	769	914	436	238	195
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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
YE 31 Dec						
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
YE 31 Dec						
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
YE 31 Dec						
P/E	55.1	13.4	6.6	7.7	6.2	5.0
P/B	1.1	0.8	0.5	0.4	0.4	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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BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
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NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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