

FIT Hon Teng (6088 HK)

CMBI Corp Day takeaways: Multiple growth drivers in AI server, AI PC/phone and AirPods in FY24/25E

We hosted FIT Hon Teng (FIT) at CMBI Technology Corporate Day on 25 Jun. After 50% rally post-Computex and WWDC in early June, investors expressed strong interests in 1) AI server upside in 2H24/2025, 2) AirPods ramp-up in Vietnam/India, 3) new EV JV and opportunities, and 4) AI PC/phone cycle in 2H24E. Mgmt. stated 2Q24 rev/GPM guidance on track with upside potential in smartphone/networking segments. Overall, we maintain our positive view on FIT's multiple growth drivers in FY24/25E (AI server connectors, AirPods, EV biz), and expect further upside in AI server content value, general server recovery and AI PC/smartphone upcycle. Maintain BUY with TP under review.

■ **2Q24/FY24E guidance on track with potential upside in smartphone and networking segments.** Mgmt. stated that 2Q24 rev/GPM was on track with guidance with further upside in networking and smartphone segments. For 2H24E, FIT is positive on iPhone replacement cycle backed by Apple Intelligence, and potential order wins in AI server connectivity (e.g. copper cartridge, switch tray) apart from US\$500-1,000 content value on compute tray which will present significant revenue upside in networking segment ahead.

■ **2025 growth drivers: AirPods, AI server connectors/cables and auto business.** Mgmt. highlighted three major growth drivers in 2025: AirPods, AI server connectors/cables and auto business. Following ramp-up of first AirPods production line in Vietnam, mgmt. expected six more lines in India to roll out gradually in 2025. In auto biz, FIT recently established a joint venture with XYPower Technology Co., Ltd. to enter EV charger market in Europe. Leveraging the technology know-how and strong client base of global tier-1s from Voltaira, mgmt. expected the new JV will launch new product series including fast charging station and AC/DC chargers, and start to expand new projects with local governments in Europe in 2025.

■ **More business upside in 2H24/2025; Reiterate BUY.** We believe FIT's "3+3 strategy" in 5G+AIoT, EV and audio will continue to drive business growth in 2024/25E, backed by AI servers/PC/phone upcycle, Honhai's leadership in AI server/iPhone, and M&A expansion in auto connectors. Trading at 14.3x/10.8x FY24/25 P/E, we think valuation remains attractive, vs 51%/33% EPS growth in FY24/25E. Near-term catalysts include AI server order wins, AirPods progress, and AI iPhone/PC upcycle.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	4,531	4,196	4,715	5,412	6,233
YoY growth (%)	0.9	(7.4)	12.4	14.8	15.2
Net profit (US\$ mn)	170.1	131.8	199.6	265.7	340.1
YoY growth (%)	24.5	(22.5)	51.4	33.1	28.0
EPS (Reported) (US\$ cents)	2.42	1.85	2.81	3.73	4.78
Consensus EPS (US\$)	-	-	2.86	3.90	5.43
P/E (x)	16.6	21.7	14.3	10.8	8.4
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	5.5	7.9	9.6	11.1
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price Under Review
 Up/Downside -
 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)	75.6
52w High/Low (HK\$)	3.54/0.90
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

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

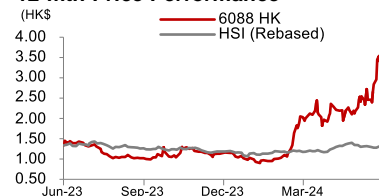
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	44.0%	50.0%
3-mth	54.7%	41.0%
6-mth	182.9%	155.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- FIT Hon Teng (6088 HK)-1Q24 in line; Positive on AI server/networking and AirPods ramp-up in 2H24E- 13th May 2024 ([link](#))
- FIT Hon Teng (6088 HK) - Recent sell-off looks overdone; AirPods production in Vietnam on track in 1H24E - 12th Apr 2024 ([link](#))
- FIT Hon Teng (6088 HK) - NDR takeaways: Opportunities in US\$ 1.7bn server connector/cable market; Lift TP to HK\$ 2.42 - 26th Mar 2024 ([link](#))
- FIT Hon Teng (6088 HK) - FY23 in line; upbeat FY24E outlook on AI server/networking, EV and AirPods upside - 14th Mar 2024 ([link](#))

Earnings forecasts

Figure 1: Revenue breakdown

US\$ 000	FY22	FY23	1H24E	2H24E	FY24E	FY25E
Computing	819,708	773,285	403,929	423,486	827,415	934,979
...YoY	2%	-6%	7%	7%	7%	13%
Smartphones	1,261,047	1,044,335	404,930	555,858	960,788	1,008,828
...YoY	-3%	-17%	-9%	-7%	-8%	5%
Networking	753,854	424,793	239,330	270,422	509,752	626,994
...YoY	-14%	-44%	9%	31%	20%	23%
EV Mobility	152,814	305,098	193,381	364,959	558,341	694,232
...YoY	10%	100%	170%	56%	83%	24%
EV business	152,814	137,553	82,391	75,795	158,186	181,914
Prettl SWH	-	167,545	110,991	289,164	400,155	512,318
System Products	1,335,580	1,415,280	663,072	916,056	1,579,127	1,853,283
...YoY	20%	6%	15%	10%	12%	17%
Others	207,600	232,759	113,997	165,314	279,311	293,276
...YoY	-17%	12%	25%	17%	20%	5%
Total	4,530,603	4,195,550	2,018,638	2,696,095	4,714,734	5,411,592
...YoY	0.9%	-7.4%	13.1%	11.8%	12.4%	14.8%

Source: Company data, CMBIGM estimates

Figure 2: P&L forecast

US\$ mn	FY22	FY23	1H24E	2H24E	FY24E	FY25E
Revenue	4,531	4,196	2,019	2,696	4,715	5,412
...YoY	0.9%	-7.4%	13.1%	11.8%	12.4%	14.8%
Cost of sales	-3,763	-3,388	-1,607	-2,124	-3,731	-4,271
Gross profit	768	807	412	572	984	1,140
GPM (%)	17%	19%	20%	21%	21%	21%
...YoY	14.1%	5.1%	45.4%	9.2%	21.9%	15.9%
SG&A	-223	-295	-149	-200	-349	-373
...% of rev	-4.9%	-7.0%	-7.4%	-7.4%	-7.4%	-6.9%
R&D	-296	-308	-157	-201	-358	-392
...% of rev	-6.5%	-7.3%	-7.8%	-7.5%	-7.6%	-7.3%
Operating profit	307	265	129	220	349	434
OPM (%)	6.8%	6.3%	6.4%	8.2%	7.4%	8.0%
...YoY	74.0%	-13.7%	167.4%	1.5%	31.8%	24.3%
Net profit	169	131	67	132	199	265
NPM (%)	3.7%	3.1%	3.3%	4.9%	4.2%	4.9%
...YoY	23.2%	-22.5%	646.5%	-6.0%	51.5%	33.1%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP under review

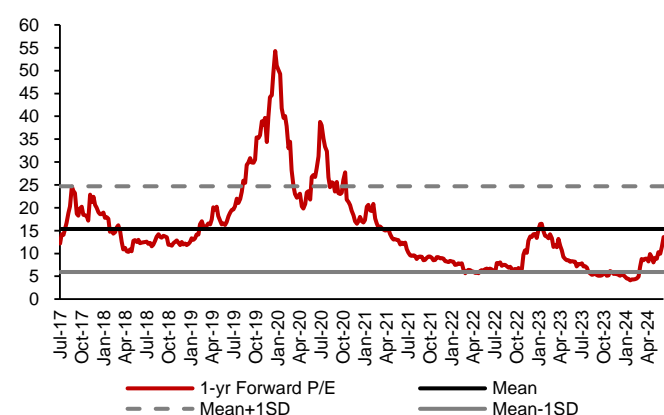
We are positive on FIT's accelerated growth on "3+3 Strategy" and probability recovery. Trading at 14.3x/10.8x FY24/25E P/E, we think risk-reward is attractive. Upcoming catalysts include AI server order wins, AirPods progress, and AI iPhone/PC upcycle.

Figure 3: Peers' valuation

			Market Cap	Price	TP	Up/ Down	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	US\$(mn)	(LC)	(LC)	-side	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Global Connectors												
TE	TEL US	NR	46,271	151.10	NA	NA	20.1	18.2	3.7	3.5	18.9	19.4
Amphenol	APH US	NR	80,805	67.27	NA	NA	39.1	34.1	8.5	7.2	23.9	23.7
Fabrinet	FN US	NR	8,592	237.71	NA	NA	27.3	25.5	5.0	4.3	18.2	17.9
Aviat	6807 JP	NR	1,127	2555	NA	NA	16.8	14.5	1.2	1.3	7.5	9.6
Hirose	6806 JP	NR	3,978	17770	NA	NA	23.1	21.3	1.7	1.6	7.4	7.6
Luxshare	002475 CH	BUY	36,727	37.16	46.6	25%	19.2	15.5	3.1	2.6	16.4	16.9
Foxconn	2354 TT	NR	3,199	73.40	NA	NA	25.5	25.0	0.7	0.7	3.8	3.8
Hon Hai	2317 TT	NR	90,141	211.00	NA	NA	18.9	14.8	1.8	1.6	9.5	11.1
Average							23.7	21.1	3.2	2.9	13.2	13.7
China technology												
FIT Hon Teng	6088 HK	BUY	2,932	3.14	2.40*	-23.6%*	14.3	10.8	1.1	1.0	7.9	9.6
AAC Tech	2018 HK	HOLD	4,666	30.40	22.4	-26%	23.7	19.1	1.4	1.3	5.8	6.9
Sunny Optical	2382 HK	HOLD	6,667	47.55	47.3	-1%	34.4	25.4	2.0	1.9	5.7	7.4
Tongda	698 HK	BUY	113	0.09	0.1	54%	4.0	3.1	0.1	0.1	3.1	3.8
BYDE	285 HK	BUY	10,807	37.45	45.2	21%	14.1	10.3	4.0	3.1	28.4	30.3
Q tech	1478 HK	BUY	614	4.05	3.9	-3%	11.0	8.3	0.8	0.8	7.6	9.4
TK Group	2283 HK	BUY	188	1.76	2.8	59%	5.2	4.4	0.8	0.7	15.3	16.3
YOFC	6869 HK	NR	1,656	7.70	NA	NA	6.9	5.6	0.5	0.4	7.0	7.9
Cowell	1415 HK	NR	2,500	22.75	NA	NA	24.3	13.9	4.9	3.6	21.9	28.4
Average							15.3	11.2	1.7	1.4	11.3	13.3

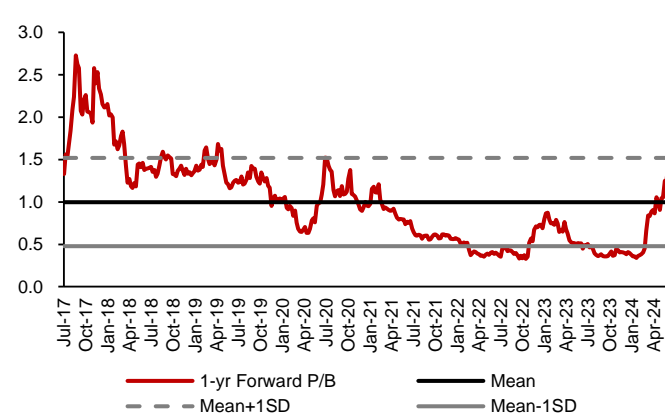
Source: Bloomberg, CMBIGM. *TP under review.

Figure 4: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 5: 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	4,715	5,412	6,233
Cost of goods sold	(3,817)	(3,763)	(3,388)	(3,731)	(4,271)	(4,884)
Gross profit	673	768	807	984	1,140	1,349
Selling expense	(105)	(93)	(105)	(127)	(135)	(156)
Admin expense	(161)	(130)	(191)	(222)	(238)	(274)
R&D expense	(301)	(296)	(308)	(358)	(392)	(452)
Others	70	58	61	73	60	62
Operating profit	177	307	265	349	434	529
Share of (losses)/profits of associates/JV	(8)	(46)	(50)	(50)	(50)	(50)
Interest expense	(2)	(14)	(33)	(33)	(30)	(26)
Pre-tax profit	167	248	182	266	354	454
Income tax	(31)	(78)	(50)	(67)	(89)	(113)
Minority interest	(1)	1	1	1	1	1
Net profit	137	170	132	200	266	340

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	3,034	2,764	3,112	2,899	3,445	4,042
Cash & equivalents	769	914	1,316	903	1,164	1,457
Account receivables	1,033	720	807	909	1,061	1,208
Inventories	982	967	802	901	1,034	1,191
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	5,397	5,871	6,359
Current liabilities	1,937	1,539	2,563	2,649	2,893	3,022
Short-term borrowings	690	453	1,383	1,383	1,383	1,383
Account payables	1,138	971	1,095	1,180	1,424	1,553
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	2,742	2,986	3,115
Share capital	139	142	142	142	142	142
Other reserves	2,348	2,295	2,384	2,584	2,850	3,190
Total shareholders equity	2,396	2,347	2,437	2,637	2,903	3,243
Minority interest	1	2	3	3	3	3
Total equity and liabilities	5,007	4,547	5,094	5,378	5,888	6,358

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	167	248	182	266	354	454
Depreciation & amortization	251	232	345	434	472	509
Tax paid	(91)	(79)	(50)	(67)	(89)	(113)
Change in working capital	(257)	93	201	(116)	(41)	(175)
Others	15	62	0	0	0	0
Net cash from operations	85	556	676	537	661	693
Investing						
Capital expenditure	(216)	(113)	(800)	(950)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(4)	47	0	0	0	0
Net cash from investing	(220)	(66)	(800)	(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)	0	0	0	0
Others	121	(268)	0	0	0	0
Net cash from financing	120	(270)	0	0	0	0
Net change in cash						
Cash at the beginning of the year	766	769	914	1,316	903	1,164
Exchange difference	19	(75)	0	0	0	0
Cash at the end of the year	769	914	1,316	903	1,164	1,457
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.1%	0.9%	(7.4%)	12.4%	14.8%	15.2%
Gross profit	16.1%	14.1%	5.1%	21.9%	15.9%	18.3%
Operating profit	41.2%	74.0%	(13.7%)	31.8%	24.3%	21.9%
Net profit	219.3%	24.5%	(22.5%)	51.4%	33.1%	28.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.0%	16.9%	19.2%	20.9%	21.1%	21.6%
Operating margin	3.9%	6.8%	6.3%	7.4%	8.0%	8.5%
Return on equity (ROE)	6.0%	7.2%	5.5%	7.9%	9.6%	11.1%
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	1.3
Receivable turnover days	84.0	58.0	70.2	70.4	71.6	70.7
Inventory turnover days	93.9	93.8	86.4	88.1	88.4	89.0
Payable turnover days	108.8	94.2	117.9	115.4	121.7	116.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	19.8	16.6	21.7	14.3	10.8	8.4
P/B	1.1	1.1	1.1	1.1	1.0	0.9
Div yield (%)	111.4	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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