

FIT Hon Teng (6088 HK)

Major overhang removed; Lift TP for 2H recovery

FIT's 1H20 profit warning is largely expected in our view, which stated 1H20 net profit to decline to US\$20mn (vs US\$101mn in 1H19), due to 1) 1Q20 NP decline of 98% YoY on production shutdown as announced earlier, and 2) weak consumer demand given major cities lockdown in 2Q20. We lowered FY20-22E EPS by 6-36% to reflect 1H20 profit warning and project delays. In longer term, we believe Belkin's improving operating leverage and iPhone shipment recovery will drive earnings in FY21/22E. We now estimate FIT's revenue/NP recovery to 5%/6% YoY in 2H20E. We believe major overhang on 1H earnings is removed, and we lifted TP to HK\$4.16 based on rollover 15.0x FY21E P/E (5-yr hist. avg.).

- 1H20 profit warning as expected due to COVID-19.** We think FIT's 1H20 profit warning is largely anticipated given 1Q20 NP decline of 98% YoY and previous guidance on higher expense and global demand weakness in 2Q20E. As production resumption has been on track since late-March, we estimate 2Q20E revenue decline narrowed to -5% YoY (vs -10% YoY in 1Q20), mainly dragged by weak consumer electronic (mobile, smart accessories, Belkin) due to US/EU lockdown. We estimate 2Q20E NP decline of 66% YoY, compared to -98% YoY in 1Q20. Looking ahead, apart from 5G iPhone upcycle in 2H20E, we expect increasing trend of work-from-home will boost demand for smart home products (routers, smart speaker) and datacenter (optical module) in 2H20E.
- Vietnam production base to offset trade war impact.** FIT has moved part of manufacturing capacity from China to Vietnam for iPhone/Belkin in 2019, which will ease pressure from rising labor cost, and mitigate tariff impact for Belkin's cable/routers under US\$250bn tariff catalog. Mgmt. expected that number of workers in Vietnam will reach 30k in peak season in 2020 (vs 20k in 2019). After the relocation, we expect FIT will start to manufacture Belkin's new TWS products in Vietnam in 2H20E.
- Major overhang removed; Lift TP to HK\$4.16 on 2H recovery.** We lowered FY20/21/22E EPS by 36%/6%/6% mainly for 1H20 profit warning and project delays, but we lifted TP to HK\$4.16 as we rollover to 15x FY21E P/E (in-line with 5-year hist. avg.) given our positive view on post-COVID-19 earnings recovery. We estimate 35% EPS FY20-22E CAGR, backed by 10% revenue CAGR. Upcoming catalysts include new products from Belkin/private label and 400G launches in 2H20E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (US\$ mn)	4,006	4,372	4,354	4,878	5,228
YoY growth (%)	17.9	9.2	(0.4)	12.0	7.2
Net income (US\$ mn)	234	235	144	235	262
EPS (US\$ cents)	3.50	3.57	2.18	3.56	3.97
YoY growth (%)	18.8	1.9	(38.9)	63.5	11.5
Consensus EPS (US\$ cents)	N/A	N/A	2.89	3.45	3.92
P/E (x)	12.7	12.5	20.5	12.5	11.2
P/B (x)	1.5	1.4	1.3	1.2	1.1
Yield (%)	2.0	0.0	1.1	1.8	2.0
ROE (%)	12	11.3	6.6	10	10
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$4.16**
 (Previous TP **HK\$2.64**)
 Up/Downside **+20.0%**
 Current Price **HK\$3.47**

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	25,461
Avg. 3mths t/o (HK\$mn)	55.04
52W High/Low (HK\$)	4.00/ 1.56
Total Issued Shares (mn)	6,881

Source: Bloomberg

Shareholding Structure

Foxconn Far East Ltd	75.27%
Lu Sung-Ching	3.33%
Franklin Resources Inc	2.10%

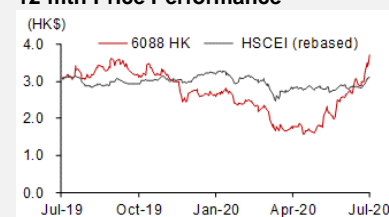
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	34.0%	24.8%
3-mth	101.7%	81.7%
6-mth	34.0%	38.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pricewaterhouse Coopers

Related Reports:

- CMBI Tech Virtual Corporate Day takeaways - 18 Jun 2020
- FIT (6088 HK, Buy) – COVID-19 impact expected in 1H20E; Long-term trend intact - 27 Mar 2020
- FIT (6088 HK, Buy) – Kantatsu deal positive for vehicle biz; Reiterate Buy – 18 Oct 2019

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Earnings Revision

Figure 1: CMBIS earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	4,354	4,878	5,228	4,218	4,577	4,868	3%	7%	7%
Gross profit	648	748	810	657	741	799	-1%	1%	1%
Operating profit	167	274	303	263	293	322	-37%	-6%	-6%
Net profit	144	235	262	224	250	278	-36%	-6%	-6%
EPS (RMB)	2.18	3.56	3.97	3.40	3.80	4.23	-36%	-6%	-6%
Gross margin	14.9%	15.3%	15.5%	15.6%	16.2%	16.4%	-0.7 ppt	-1.3 ppt	-1.1 ppt
Operating margin	3.8%	5.6%	5.8%	6.2%	6.4%	6.6%	-2.4 ppt	-2.6 ppt	-1 ppt
Net Margin	3.3%	4.8%	5.0%	5.3%	5.5%	5.7%	-2 ppt	-2.2 ppt	-0.9 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(US\$ mn)	CMBIS			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	4,354	4,878	5,228	4,264	4,554	4,625	2%	7%	13%
Gross profit	648	748	810	681	752	759	-5%	-1%	7%
Operating profit	167	274	303	233	283	306	-28%	-3%	-1%
Net profit	144	235	262	191	232	252	-25%	1%	4%
EPS (RMB)	2.18	3.56	3.97	2.89	3.45	3.92	-24%	3%	1%
Gross margin	14.9%	15.3%	15.5%	16.0%	16.5%	16.4%	-1.1 ppt	-1.2 ppt	-0.9 ppt
Operating margin	3.8%	5.6%	5.8%	5.5%	6.2%	6.6%	-1.6 ppt	-0.6 ppt	-0.8 ppt
Net Margin	3.3%	4.8%	5.0%	4.5%	5.1%	5.5%	-1.2 ppt	-0.3 ppt	-0.5 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS P&L forecast

US\$ mn	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E	FY22E
Revenue	4,006	1,918	2,454	4,372	1,775	2,579	4,354	4,878	5,228
...YoY	17.9%	11.6%	7.3%	9.2%	-7.5%	5.1%	-0.4%	12.0%	7.2%
Cost of sales	(3,298)	(1,542)	(2,076)	(3,618)	(1,524)	(2,182)	(3,706)	(4,131)	(4,418)
Gross profit	708	376	378	754	252	396	648	748	810
GPM (%)	18%	20%	15%	17%	14%	15%	15%	15%	15%
...YoY	24.3%	27.7%	-8.6%	6.5%	-33.1%	4.9%	-14.1%	15.4%	8.3%
SG&A	(212)	(143)	(126)	(269)	(141)	(132)	(273)	(259)	(277)
...% of rev	-5.3%	-7.4%	-5.2%	-6.2%	-8.0%	-5.1%	-6.3%	-5.3%	-5.3%
R&D	(227)	(121)	(128)	(250)	(125)	(134)	(259)	(263)	(282)
...% of rev	-5.7%	-6.3%	-5.2%	-5.7%	-7.1%	-5.2%	-6.0%	-5.4%	-5.4%
Operating profit	309	122	153	275	5	162	167	274	303
OPM (%)	7.7%	6.4%	6.2%	6.3%	0.3%	6.3%	3.8%	5.6%	5.8%
...YoY	40.4%	-12.9%	-9.1%	-10.8%	-95.9%	5.5%	-39.4%	64.6%	10.3%
Net profit	234	102	134	235	2	142	144	235	262
NPM (%)	5.8%	5.3%	5.4%	5.4%	0.1%	5.5%	3.3%	4.8%	5.0%
...YoY	29.6%	-5.4%	5.7%	0.6%	-98.0%	6.0%	-39.0%	63.5%	11.5%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP of HK4.16

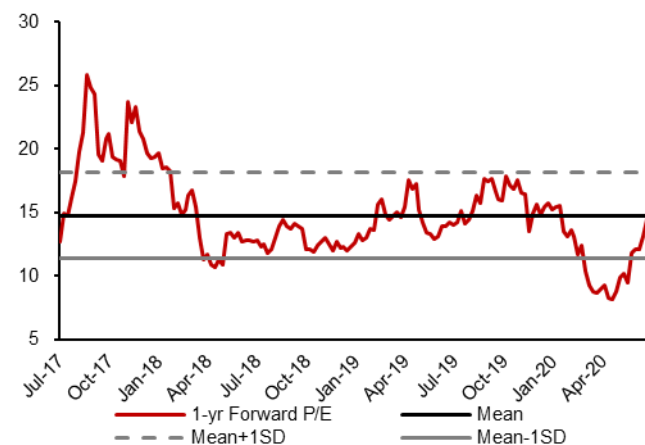
Our new 12m TP of HK\$ 4.16 is based on rollover 15x FY21E P/E (5-yr hist. avg.) given post-COVID-19 earnings recovery. We estimate 35% EPS FY20-22E CAGR, backed by 10% sales CAGR and improving GPM on better product mix. Upcoming catalysts include new products from Belkin/private label and 400G launches in 2H20E.

Figure 4: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
TE	TEL US	NR	26,418	80.09	NA	NA	21.7	16.7	3.0	3.0	13.2	17.1
Amphenol	APH US	NR	28,125	95.05	NA	NA	31.6	25.8	6.5	6.1	20.5	24.3
Delphi	DLPH US	NR	1,218	14.11	NA	NA	-	12.9	7.9	6.0	(1.0)	26.9
Fabrinet	FN US	NR	2,323	63.26	NA	NA	17.4	15.6	2.5	2.1	15.2	15.1
Aviat	6807 JP	NR	1,256	1459.00	NA	NA	13.2	20.9	1.0	0.9	7.5	5.0
Hirose	6806 JP	NR	4,204	11810.00	NA	NA	26.5	30.8	1.4	1.4	5.3	4.4
Luxshare	002475 CH	NR	56,297	56.35	55.4	-2%	42.7	33.9	14.3	10.8	22.3	25.4
Cheng Uei	2392 TT	NR	761	43.75	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	2,786	58.00	NA	NA	11.5	10.6	0.7	0.7	5.9	6.3
Hon Hai	2317 TT	NR	40,584	86.20	NA	NA	11.8	9.6	0.9	0.9	7.5	9.3
Average							22.1	19.6	4.2	3.5	10.7	14.9
FIT Hon Teng	6088 HK	Buy	3,285	3.47	4.16	20%	20.5	12.5	1.3	1.2	6.6	10.0
AAC Tech	2018 HK	Sell	9,512	61.00	36.0	-41%	39.4	30.6	3.4	3.3	11.3	8.3
Sunny Optical	2382 HK	Hold	20,989	148.40	148.0	0%	34.6	25.3	11.6	9.0	31.9	25.9
Tongda	698 HK	Hold	477	0.57	0.5	-7%	7.6	6.6	0.6	0.5	6.1	7.1
BYDE	285 HK	Buy	6,411	22.10	22.2	0%	27.2	20.4	2.6	2.4	9.4	9.0
Q tech	1478 HK	Buy	1,864	12.32	14.8	20%	18.3	14.3	4.4	3.7	18.9	20.0
TK Group	2283 HK	Buy	233	2.17	2.3	7%	3.9	3.4	1.4	1.4	29.7	35.7
FIH	2038 HK	NR	1,006	0.95	NA	NA	17.5	13.6	-	-	-	-
Truly	732 HK	NR	475	1.12	NA	NA	-	-	-	-	-	-
YOFC	6869 HK	NR	2,759	16.62	NA	NA	13.6	11.2	1.2	1.1	9.0	9.9
O-NET	877 HK	NR	674	6.26	NA	NA	21.4	17.4	2.0	1.8	7.8	9.2
Ju Teng	3336 HK	NR	450	2.99	NA	NA	9.5	10.7	0.5	0.5	5.5	4.8
Cowell	1415 HK	NR	383	3.57	NA	NA	9.4	7.8	1.2	1.1	11.2	13.8
Average							23.9	21.3	2.8	2.5	13.0	13.1

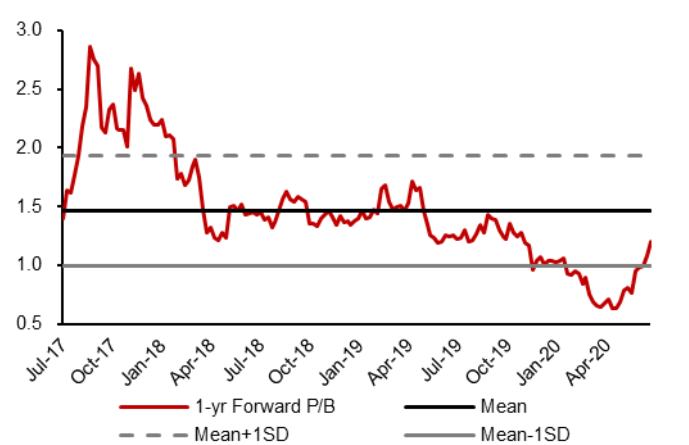
Source: Bloomberg, CMBIS

Figure 5: 12M forward P/E band



Source: Company data, CMBIS

Figure 6: 12M forward P/B band



Source: Company data, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,006	4,372	4,354	4,878	5,228	Profit before taxation	311	266	160	270	301
COGS	(3,298)	(3,618)	(3,706)	(4,131)	(4,418)	Depreciation	201	204	221	239	256
Gross profit	708	754	648	748	810	Change in working capital	248	(152)	165	(203)	94
Selling and marketing	(85)	(111)	(111)	(107)	(115)	Others	(64)	(5)	(11)	(32)	(39)
Administrative	(126)	(159)	(162)	(151)	(162)	Net cash from operating	697	313	535	273	612
R&D	(227)	(250)	(259)	(263)	(282)	Capex	(110)	(180)	(180)	(180)	(180)
Other gain/(loss)	41	39	50	49	52	Other	(837)	(237)	24	26	29
Operating profit	309	275	167	274	303	Net cash from investing	(947)	(417)	(156)	(154)	(151)
Financial cost	3	(7)	(5)	(3)	(0)	Net borrowings	694	(496)	601	92	102
Share associate's profit	(0)	(2)	(2)	(2)	(2)	Dividend paid	(47)		(32)	(52)	(58)
Pre-tax profit	311	266	160	270	301	Share issuing					
Tax	(79)	(33)	(16)	(35)	(39)	Other	(72)	432	(29)	(29)	(29)
Minority interest	(1)	(2)	0	0	0	Net cash from financing	575	(64)	540	11	15
Net profit	234	235	144	235	262	Net change in cash	325	(168)	920	130	476
						Cash at beginning of the year	768	1,065	892	1,812	1,942
						Exchange difference	(27)	0	0	0	0
						Cash at the end of the year	1,065	892	1,812	1,942	2,418

Balance sheet						Key ratios					
YE 31 Dec (US\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	2,753	2,742	3,656	4,097	4,552	Sales mix (%)					
Cash & equivalents	1,065	892	1,812	1,942	2,418	Consumer electronics	23	18	18	16	16
Account receivables	935	930	927	1,154	1,076	Mobile devices	43	40	41	40	38
Inventories	650	703	700	784	840	Comm. infrastructure	23	20	19	19	20
Short-term bank deposits	6	118	118	118	118	Auto, industrial and medical	2	3	3	4	6
						Connected home	1	6	6	7	7
Non-current assets	1,557	1,665	1,624	1,565	1,490	Smart accessories	8	13	13	14	14
PPE	599	566	525	466	391						
Intangibles	791	745	745	745	745	Growth (%)					
Interests in associates	6	22	22	22	22	Revenue	17.9	9.2	(0.4)	12.0	7.2
Deferred income tax	109	115	115	115	115	Gross profit	24.3	6.5	(14.1)	15.4	8.3
Other non-current assets	52	218	218	218	218	Operating profit	40.4	(10.8)	(39.4)	64.6	10.3
Total assets	4,310	4,407	5,280	5,662	6,041	Net profit	29.6	0.6	(39.0)	63.5	11.5
Current liabilities	2,269	1,662	2,423	2,622	2,797	Profit & loss ratio (%)					
ST borrowings	989	494	1,095	1,186	1,288	Gross margin	17.7	17.2	14.9	15.3	15.5
Account payables	1,191	1,086	1,246	1,354	1,427	Operating margin	7.7	6.3	3.8	5.6	5.8
Tax payable	83	63	63	63	63	Net profit margin	5.8	5.4	3.3	4.8	5.0
Other current liabilities	6.025	19.563	19.563	19.563	19.563						
Non-current liabilities	93	668	668	668	668	Balance sheet ratio					
Other payables	18	10	10	10	10	Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax liability	75	61	61	61	61	Current ratio (x)	1.2	1.6	1.5	1.6	1.6
Total liabilities	2,362	2,330	3,090	3,290	3,465	Receivable turnover days	85	78	78	86	75
Share capital	132	134	134	134	134	Inventory turnover days	72	71	69	69	69
Reserves	1,875	2,025	2,137	2,320	2,524	Payable turnover days	132	110	123	120	118
Non-controlling interests	13	11	11	11	11	Profitability (%)					
Shareholders' equity	1,947	2,077	2,189	2,372	2,577	ROE	12.0	11.3	6.6	9.9	10.2
Total equity and liabilities	4,310	4,407	5,280	5,662	6,041	ROA	5.4	5.3	2.7	4.1	4.3
						Per share data (US\$ cents)					
						EPS	3.50	3.57	2.18	3.56	3.97
						DPS	0.90	0.00	0.48	0.78	0.87

Source: Company data, CMBIS estimates

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