

FIT Hon Teng (6088 HK)

3+3 Strategy starts to bear fruit; Raise TP to HK\$1.78

We raised our TP to HK\$1.78 (37% upside) to reflect 1H22 positive profit alert and its strong execution of 3+3 Strategy in 2H22E. 1H22 net profit was expected to increase to US\$80-90mn (+100%+ YoY), accounting for 63%/76% of our/ consensus FY22E estimates, driven by stronger 2Q22 recovery from COVID-19, better product mix and forex gain. We spoke to mgmt. and remain positive on FIT's 2H22 recovery backed by Apple's product launches, Belkin's momentum and improving product mix. Overall, we believe FIT will benefit from solid execution of "3+3 Strategy" (EV, 5G AIoT, Audio), and mgmt. expected "3+3" revenue mix will reach 31% in 2023 (vs 16% in 2021). We lifted FY22-24E EPS by 15-16% to reflect 1H22 beat and stronger recovery in 2H22E. Despite recent rally, the stock trades at distressed valuation of 7.3x/6.4x FY22E/23E P/E. Reiterate BUY.

- **1H22 positive profit alert on strong 2Q22 recovery.** Mgmt. stated that 2Q22 post-COVID recovery was stronger than expected, compared to previous guidance of flattish revenue and gross margin. By segment, "3+3" (EV, 5G AIoT, Audio) emerged as the core growth driver. Looking into 2H22E, FIT expected stable share allocation for traditional products and stronger client order of new product launches (e.g. US client, Belkin TWS).
- **"3+3 Strategy" to drive growth in 2023; Potential Type-C cycle on EU's new regulation.** Mgmt. maintained "3+3 Strategy" revenue mix target of 31% by 2023 (vs 16% in 2021) backed by expansion into EV segments (charging, interconnect, display), 5G AIoT products (socket, networking) and Audio components/final products (Beats, Belkin, SSI). In addition, we believe recent new EU rules to mandate USB Type-C charging for phones will boost demand for Type-C socket/cable and charging accessories. Overall, we estimate 15%/17% EPS growth in FY23/24E.
- **Risk/reward remains attractive; Raise TP to HK\$1.78.** We revised our FY22E EPS to reflect stronger 2Q22 recovery and positive progress of "3+3" Strategy. Our new TP of HK\$1.78 is based on same 10x FY21E P/E (1-sd below 5-year hist. avg.). Trading at 7.3x/6.4x FY22E/23E P/E, we think risk-reward remains attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins.

Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	4,315	4,490	4,672	5,108	5,635
YoY growth (%)	(1.3)	4.1	4.0	9.3	10.3
Net income (US\$ mn)	43	138	154	177	207
EPS (US\$ cents)	0.64	2.04	2.28	2.62	3.07
YoY growth (%)	(82.2)	219.9	12.0	14.8	17.0
Consensus EPS (US\$ cents)	na	na	1.47	1.88	1.90
P/E (x)	21.8	8.2	7.3	6.4	5.4
P/B (x)	0.4	0.5	0.4	0.4	0.4
Yield (%)	1.0	2.7	3.0	3.5	4.0
ROE (%)	1.9	5.7	6.1	6.7	7.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

BUY (Maintain)

Target Price	HK\$1.78
(Previous TP)	HK\$1.55)
Up/Downside	+37%
Current Price	HK\$1.30

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$mn)	9,447
Avg. 3mths t/o (HK\$mn)	2.79
52W High/Low (HK\$)	1.84/ 0.86
Total Issued Shares (mn)	7,267

Source: Bloomberg

Shareholding Structure

Foxconn Far East Ltd	71.27%
Lu Sung-Ching	5.75%

Source: HKEX

Share Performance

	Absolute	Relative
1-mth	21.5%	22.8%
3-mth	23.8%	27.8%
6-mth	-16.7%	-3.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Earnings Revision

Figure 1: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,672	5,108	5,635	4,525	4,941	5,450	3%	3%	3%
Gross profit	705	790	884	680	761	850	4%	4%	4%
Operating profit	187	213	247	164	183	213	14%	16%	16%
Net profit	154	177	207	135	152	178	15%	16%	16%
EPS (USD cents)	2.28	2.62	3.07	1.99	2.25	2.64	15%	16%	16%
Gross margin	15.1%	15.5%	15.7%	15.0%	15.4%	15.6%	0.1 ppt	0.1 ppt	0.1 ppt
Operating margin	4.0%	4.2%	4.4%	3.6%	3.7%	3.9%	0.4 ppt	0.5 ppt	0.5 ppt
Net Margin	3.3%	3.5%	3.7%	3.0%	3.1%	3.3%	0.3 ppt	0.4 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,672	5,108	5,635	4,539	4,743	4,998	3%	8%	13%
Gross profit	705	790	884	681	729	771	4%	8%	15%
Operating profit	187	213	247	163	169	193	15%	26%	28%
Net profit	154	177	207	112	134	147	37%	32%	41%
EPS (USD cents)	2.28	2.62	3.07	1.47	1.88	1.90	56%	39%	61%
Gross margin	15.1%	15.5%	15.7%	15.0%	15.4%	15.4%	0.1 ppt	0.1 ppt	0.3 ppt
Operating margin	4.0%	4.2%	4.4%	3.6%	3.6%	3.9%	0.4 ppt	0.6 ppt	0.5 ppt
Net Margin	3.3%	3.5%	3.7%	2.5%	2.8%	2.9%	0.8 ppt	0.6 ppt	0.7 ppt

Source: Company data, CMBIGM estimates

Figure 3: P&L forecast

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,372	4,315	4,490	4,672	5,108	5,635
...YoY	9.2%	-1.3%	4.1%	4.0%	9.3%	10.3%
Cost of sales	(3,618)	(3,735)	(3,817)	(3,966)	(4,318)	(4,751)
Gross profit	754	580	673	705	790	884
GPM (%)	17%	13%	15%	15%	15%	16%
...YoY	6.5%	-23.1%	16.1%	4.8%	12.0%	11.9%
SG&A	(269)	(230)	(266)	(262)	(296)	(327)
...% of rev	-6.2%	-5.3%	-5.9%	-5.6%	-5.8%	-5.8%
R&D	(250)	(235)	(301)	(304)	(332)	(366)
...% of rev	-5.7%	-5.4%	-6.7%	-6.5%	-6.5%	-6.5%
Operating profit	275	125	177	187	213	247
OPM (%)	6.3%	2.9%	3.9%	4.0%	4.2%	4.4%
...YoY	-10.8%	-54.7%	41.6%	5.8%	13.8%	16.1%
Net profit	235	43	138	154	177	207
NPM (%)	5.4%	1.0%	3.1%	3.3%	3.5%	3.7%
...YoY	0.6%	-81.9%	223.8%	12.0%	14.8%	17.0%

Source: Company data, CMBIGM estimates

Figure 4: Revenue breakdown

US\$ mn	FY21	FY22E	FY23E	FY24E
Computing	853,610	853,610	896,291	941,105
...YoY		0%	5%	5%
Smartphones	1,270,090	1,282,791	1,346,930	1,414,277
...YoY		1%	5%	5%
Networking	890,670	846,137	930,750	1,051,748
...YoY		-5%	10%	13%
EV Mobility	134,680	161,616	202,020	262,626
...YoY		20%	25%	30%
Final Products	1,097,510	1,317,012	1,514,564	1,741,748
...YoY		20%	15%	15%
Others	200,650	210,683	217,003	223,513
...YoY		5%	3%	3%
Total	4,490,215	4,671,848	5,107,558	5,635,017
...YoY		4.0%	9.3%	10.3%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP of HK1.78

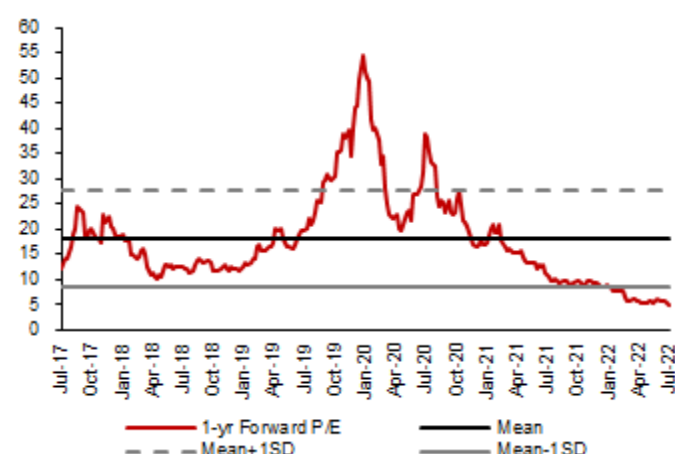
Our new 12m TP of HK\$ 1.78 is based on same 10x FY22E P/E. Trading at 7.3x FY22E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY21	FY22E	FY21	FY22E	FY21	FY22E
Global Connectors												
TE	TEL US	NR	37,379	116.02	NA	NA	16.3	15.1	3.4	3.1	21.7	22.2
Amphenol	APH US	NR	39,519	66.18	NA	NA	23.7	22.4	5.9	5.1	26.5	25.5
Fabrinet	FN US	NR	3,069	83.43	NA	NA	13.9	12.8	2.4	2.1	18.7	17.2
Aviat	6807 JP	NR	1,430	2138.00	NA	NA	14.3	12.5	1.3	1.1	9.2	9.9
Hirose	6806 JP	NR	4,838	17940.00	NA	NA	22.0	19.2	1.9	1.8	8.8	9.6
Luxshare	002475 CH	BUY	34,149	32.50	*74.2	NA	23.2	17.5	4.9	3.9	22.0	23.0
Cheng Uei	2392 TT	NR	559	32.65	NA	NA	12.5	-	0.7	-	5.5	-
Foxconn	2354 TT	NR	2,223	47.00	NA	NA	10.9	10.1	0.5	0.5	5.8	6.5
Hon Hai	2317 TT	NR	48,671	105.00	NA	NA	9.8	8.7	1.0	0.9	10.2	10.6
Average							16.3	14.8	2.4	2.3	14.3	15.6
China technology												
FIT Hon Teng	6088 HK	BUY	1,203	1.30	1.78	37%	7.4	6.4	0.4	0.5	6.0	5.6
AAC Tech	2018 HK	HOLD	2,466	16.02	14.0	-13%	18.9	13.2	0.8	0.7	4.0	5.6
Sunny Optical	2382 HK	HOLD	15,524	111.10	108.6	-2%	31.1	25.7	4.6	4.0	14.7	15.6
Tongda	698 HK	BUY	173	0.14	0.2	57%	3.5	2.3	0.1	0.1	3.1	4.5
BYDE	285 HK	HOLD	6,587	22.95	12.5	-46%	26.1	15.5	1.8	1.6	6.9	10.6
Q tech	1478 HK	BUY	703	4.66	7.0	50%	7.2	5.2	0.9	0.8	13.0	15.7
TK Group	2283 HK	BUY	200	1.88	3.4	80%	4.6	3.6	0.9	0.7	18.6	20.7
FIH	2038 HK	NR	1,065	1.05	NA	NA	-	22.3	0.6	0.6	2.7	2.8
Truly	732 HK	NR	795	1.90	NA	NA	4.8	3.8	0.5	0.5	10.6	12.4
YOFC	6869 HK	NR	2,565	13.76	NA	NA	10.1	8.7	0.9	0.8	9.1	9.7
Ju Teng	3336 HK	NR	228	1.49	NA	NA	7.5	5.1	0.3	0.2	3.5	5.0
Cowell	1415 HK	NR	1,383	13.00	NA	NA	18.6	13.8	3.3	2.8	20.3	23.2
Average							12.7	10.5	1.3	1.1	9.6	10.9

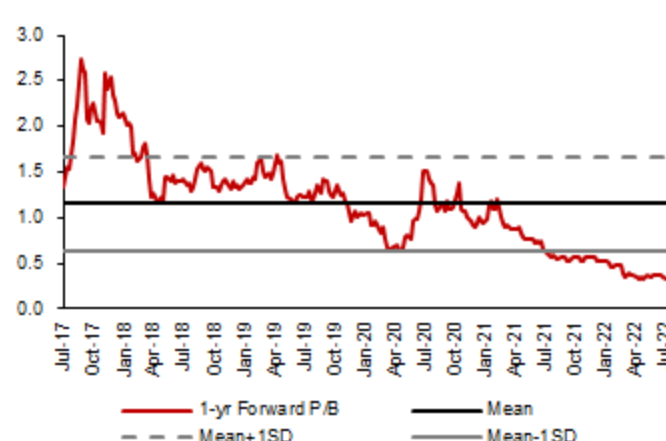
Source: Bloomberg, CMBIGM, * TP under review

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

YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,315	4,490	4,672	5,108	5,635
COGS	(3,735)	(3,817)	(3,966)	(4,318)	(4,751)
Gross profit	580	673	705	790	884
Selling and marketing	(97)	(105)	(103)	(117)	(130)
Administrative	(134)	(161)	(159)	(179)	(197)
R&D	(235)	(301)	(304)	(332)	(366)
Other gain/(loss)	11	70	47	51	56
Operating profit	125	177	187	213	247
Financial cost	1	(2)	(1)	1	2
Share associate's profit	(9)	(8)	(4)	(4)	(4)
Pre-tax profit	117	167	182	209	245
Tax	(74)	(31)	(27)	(31)	(37)
Minority interest	0	(1)	1	1	1
Net profit	43	138	154	177	207

Cash flow summary

YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before taxation	117	167	182	209	245
Depreciation	241	146	156	167	178
Change in working capital	(279)	(93)	23	(143)	(45)
Others	36	(135)	(27)	(32)	(39)
Net cash from operating	115	85	335	202	339
Capex	(335)	(241)	(200)	(200)	(200)
Other	(21)	461	12	13	15
Net cash from investing	(356)	220	(188)	(187)	(185)
Net borrowings	-	86	(61)	35	41
Dividend paid	-	(30)	(34)	(39)	(46)
Share issuing	71	65	(13)	(13)	(13)
Other	71	120	(107)	(17)	(18)
Net cash from financing	71	120	(107)	(17)	(18)
Net change in cash	(169)	425	40	(2)	136
Cash at beginning of the year	892	766	769	809	807
Exchange difference	43	-	-	-	-
Cash at the end of the year	766	769	809	807	944

Balance sheet

YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
Current assets	2,848	3,034	3,029	3,392	3,598
Cash & equivalents	766	769	809	807	944
Account receivables	872	1,033	949	1,218	1,172
Inventories	944	982	1,022	1,117	1,233
Short-term bank deposits	126	98	98	98	98
Non-current assets	1,791	1,973	2,016	2,049	2,071
PPE	728	823	867	900	921
Intangibles	709	634	634	634	634
Interests in associates	24	172	172	172	172
Deferred income tax	135	133	133	133	133
Other non-current assets	195	211	211	211	211
Total assets	4,639	5,007	5,045	5,441	5,669
Current liabilities	1,790	1,937	1,855	2,111	2,177
ST borrowings	604	690	629	664	705
Account payables	1,032	1,138	1,116	1,338	1,363
Tax payable	129	94	94	94	94
Other current liabilities	25,530	15,243	15,243	15,243	15,243
Non-current liabilities	659	674	674	674	674
Other payables	5	10	10	10	10
Deferred tax liability	50	42	42	42	42
Total liabilities	2,449	2,611	2,529	2,785	2,850
Share capital	135	139	139	139	139
Reserves	2,145	2,348	2,468	2,606	2,768
Non-controlling interests	3	1	2	3	4
Shareholders' equity	2,190	2,396	2,517	2,656	2,819
Total equity and liabilities	4,639	5,007	5,045	5,441	5,669

Key ratios

YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
Sales mix (%)					
Consumer electronics	20	22	21	20	19
Mobile devices	38	31	30	29	28
Comm. infrastructure	19	20	18	18	19
Auto, industrial and medical	3	4	5	5	6
Connected home	7	4	0	0	0
Smart accessories	13	19	22	23	24
Growth (%)					
Revenue	(1.3)	4.1	4.0	9.3	10.3
Gross profit	(23.1)	16.1	4.8	12.0	11.9
Operating profit	(54.7)	41.6	5.8	13.8	16.1
Net profit	(81.9)	223.8	12.0	14.8	17.0
Profit & loss ratio (%)					
Gross margin	13.4	15.0	15.1	15.5	15.7
Operating margin	2.9	3.9	4.0	4.2	4.4
Net profit margin	1.0	3.1	3.3	3.5	3.7
Balance sheet ratio					
Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.6	1.6	1.6	1.6	1.7
Receivable turnover days	74	84	74	87	76
Inventory turnover days	92	94	94	94	95
Payable turnover days	101	109	103	113	105
Profitability (%)					
ROE	1.9	5.7	6.1	6.7	7.3
ROA	0.9	2.7	3.1	3.3	3.7
Per share data (US\$ cents)					
EPS	0.64	2.04	2.28	2.62	3.07
DPS	0.14	0.45	0.50	0.58	0.67

Source: Company data, CMBIGM estimates

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