

# FIT Hon Teng (6088 HK)

## 3Q22 beat on solid execution of “3+3 Strategy”; Raise TP to HK\$1.84

We spoke to FIT mgmt. last week and remain positive on its solid roadmap of “3+3 Strategy” in FY23/24E. We raised FY22-24E EPS by 8-15% and lifted TP to HK\$1.84 based on rollovered 8x FY23E P/E (1-sd below hist. avg). FIT’s 3Q22 net profit of US\$ 50mn (+35% YoY) and revenue of US\$ 1.28bn (+11% YoY) beat market expectations, driven by stronger lightening products, EV mobility and Belkin/TWS. Improving product mix, operational efficiency and solid progress of “3+3 Strategy” led to better NPM in 3Q22 (3.9%, vs 3.2% in 3Q21). Looking ahead, we believe “3+3 Strategy” execution (EV, 5G AIoT, Audio) will become major growth drivers in FY23-24E. The stock now trades at attractive valuation of 7.0x/6.2x FY22/23E P/E (vs. 34%/13% EPS growth in FY22/23E). Reiterate BUY.

- 3Q22 beat; Strong smartphone, EV mobility and Belkin/TWS products.**  
 FIT delivered strong 3Q22 performance in smartphone (lightening cables) and system products (Belkin/TWS earbuds) with 23%/25% YoY growth. Mgmt. expected further share gain in both segments given clients orders shifting to leading suppliers. Slower networking and computing segments (-7%/-15% YoY) in 3Q22 was a result of removal of low-margin optical business and diminishing WFH/LFH demand.
- Raised FY22E guidance on “3+3 Strategy” execution; Multiple growth drivers in FY23E.** In view of better product mix and profitability, mgmt. raised FY22E guidance for gross profit growth to 5-15% YoY (vs flat prior) and net profit growth to 15%+ YoY (vs flat prior). By segment, FIT guided stronger revenue in smartphone, EV mobility and system products, offsetting weaker networking and computing segments. Mgmt. reiterated “3+3 Strategy” sales mix to reach 31% in FY23E, with EV mobility accounting for double-digit in FY23E. In addition, FIT achieved meaningful progress in EV connectivity products with other tier-one and traditional OEMs (3Q22 EV Mobility +19% YoY), apart from Tesla charging modules. For Audio segment, FIT is set to benefit from holiday season and accessories for new iPhone/iPad. For 2023, mgmt. expected new CPU sockets compatible with Eagle Stream and Genoa platforms will also help to drive higher content value and margins ahead.
- Our FY22-24E EPS are 24-32% above consensus; Raise TP to HK\$1.84.** We lifted our FY22-24E EPS by 8-15% for mainly better margins and product mix. We raised TP to HK\$1.84 based on rollovered 8x FY23E P/E (1-sd below 5-year hist. avg.). Trading at 7.0x/6.2x FY22/23E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	4,315	4,490	4,578	4,998	5,504
YoY growth (%)	(1.3)	4.1	2.0	9.2	10.1
Net profit (US\$ mn)	42.6	136.8	183.0	206.6	231.2
YoY growth (%)	(81.8)	221.3	33.8	12.9	11.9
EPS (Reported) (US\$ cents)	0.64	2.04	2.63	2.96	3.32
Consensus EPS (US\$)	na	na	2.00	2.25	2.67
P/E (x)	55.1	13.4	7.0	6.2	5.6
P/B (x)	1.1	0.8	0.5	0.5	0.4
Yield (%)	39.9	164.4	312.1	352.4	394.4
ROE (%)	2.0	6.0	7.4	7.9	8.3

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$1.84</b>
(Previous TP)	HK\$1.78
<b>Up/Downside</b>	<b>27.2%</b>
<b>Current Price</b>	<b>HK\$1.45</b>

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### Stock Data

Mkt Cap (HK\$ mn)	10,537.2
Avg 3 mths t/o (HK\$ mn)	1.1
52w High/Low (HK\$)	1.72/0.88
Total Issued Shares (mn)	7267.0

Source: FactSet

### Shareholding Structure

Foxconn Far East Ltd	71.2%
Lu Sung-Ching	5.9%

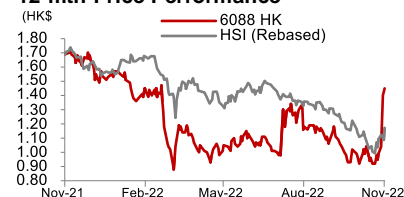
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	49.5%	45.2%
3-mth	22.9%	42.4%
6-mth	38.1%	58.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

- [FIT Hon Teng \(6088 HK\) - Strong 1H22 in-line; Positive outlook on “3+3 strategy” - 11 Aug](#)
- [FIT Hon Teng \(6088 HK\) - 3+3 Strategy starts to bear fruit; Raise TP to HK\\$1.78 - 19 Jul](#)
- [FIT Hon Teng \(6088 HK\) - Corp Day Takeaways: “3+3 Strategy” to emerge as new growth driver – 16 Jun](#)

## Results Review

Figure 1: 3Q22 results review

US\$ mn	3Q21	3Q22	YoY	9M21	9M22	YoY	CMBI		Consensus	
							FY22E	Track(%)	FY22E	Track (%)
Revenue	1,150	1,275	10.9%	3,132	3,376	7.8%	4,303	78%	4,602	73%
Gross profit	168	207	23.2%	436	558	28.0%	638	87%	693	77%
Operating profit	24	70	192%	20	158	690%	190	83%	165	87%
Net profit	40	50	25%	49	135	176%	135	100%	134	89%
EPS (USD cents)	0.59	0.71	20%	0.73	1.94	166%	2.42	80%	1.93	101%
Gross margin	14.6%	16.2%		13.9%	16.5%		14.8%		15.1%	
Operating margin	2.1%	5.5%		0.6%	4.7%		4.4%		3.6%	
Net margin	3.5%	3.9%		1.6%	4.0%		3.8%		2.9%	

Source: Company data, CMBIGM estimates

## Earnings Revision

Figure 2: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,578	4,998	5,504	4,672	5,108	5,635	-2%	-2%	-2%
Gross profit	723	791	877	705	790	884	3%	0%	-1%
Operating profit	220	246	274	187	213	247	18%	16%	11%
Net profit	182	205	230	154	177	207	18%	16%	11%
EPS (USD cents)	2.63	2.96	3.32	2.28	2.62	3.07	15%	13%	8%
Gross margin	15.8%	15.8%	15.9%	15.1%	15.5%	15.7%	0.7 ppt	0.4 ppt	0.2 ppt
Operating margin	4.8%	4.9%	5.0%	4.0%	4.2%	4.4%	0.8 ppt	0.8 ppt	0.6 ppt
Net Margin	4.0%	4.1%	4.2%	3.3%	3.5%	3.7%	0.7 ppt	0.6 ppt	0.5 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,578	4,998	5,504	4,596	4,809	5,101	0%	4%	8%
Gross profit	723	791	877	727	773	831	0%	2%	6%
Operating profit	220	246	274	182	223	229	21%	10%	20%
Net profit	182	205	230	152	162	171	20%	26%	34%
EPS (USD cents)	2.63	2.96	3.32	2.00	2.25	2.67	31%	32%	24%
Gross margin	15.8%	15.8%	15.9%	15.8%	16.1%	16.3%	0 ppt	-0.3 ppt	-0.4 ppt
Operating margin	4.8%	4.9%	5.0%	4.0%	4.6%	4.5%	0.8 ppt	0.3 ppt	0.5 ppt
Net Margin	4.0%	4.1%	4.2%	3.3%	3.4%	3.4%	0.7 ppt	0.7 ppt	0.8 ppt

Source: Company data, CMBIGM estimates

Figure 4: P&amp;L forecast

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>4,372</b>	<b>4,315</b>	<b>4,490</b>	<b>4,578</b>	<b>4,998</b>	<b>5,504</b>
...YoY	9.2%	-1.3%	4.1%	2.0%	9.2%	10.1%
Cost of sales	(3,618)	(3,735)	(3,817)	(3,855)	(4,207)	(4,627)
<b>Gross profit</b>	<b>754</b>	<b>580</b>	<b>673</b>	<b>723</b>	<b>791</b>	<b>877</b>
GPM (%)	17%	13%	15%	16%	16%	16%
...YoY	6.5%	-23.1%	16.1%	7.5%	9.4%	10.8%
SG&A	(269)	(230)	(266)	(252)	(270)	(300)
...% of rev	-6.2%	-5.3%	-5.9%	-5.5%	-5.4%	-5.5%
R&D	(250)	(235)	(301)	(298)	(325)	(358)
...% of rev	-5.7%	-5.4%	-6.7%	-6.5%	-6.5%	-6.5%
<b>Operating profit</b>	<b>275</b>	<b>125</b>	<b>177</b>	<b>220</b>	<b>246</b>	<b>274</b>
OPM (%)	6.3%	2.9%	3.9%	4.8%	4.9%	5.0%
...YoY	-10.8%	-54.7%	41.6%	24.4%	12.1%	11.2%
<b>Net profit</b>	<b>235</b>	<b>43</b>	<b>138</b>	<b>182</b>	<b>205</b>	<b>230</b>
NPM (%)	5.4%	1.0%	3.1%	4.0%	4.1%	4.2%
...YoY	0.6%	-81.9%	223.8%	32.1%	12.9%	11.9%

Source: Company data, CMBIGM estimates

Figure 5: Revenue breakdown

US\$ mn	FY21	FY22E	FY23E	FY24E
<b>Computing</b>	<b>880,770</b>	<b>819,116</b>	<b>860,072</b>	<b>903,076</b>
...YoY		-7%	5%	5%
<b>Smartphones</b>	<b>1,253,290</b>	<b>1,416,218</b>	<b>1,487,029</b>	<b>1,561,380</b>
...YoY		13%	5%	5%
<b>Networking</b>	<b>894,110</b>	<b>759,994</b>	<b>835,993</b>	<b>944,672</b>
...YoY		-15%	10%	13%
<b>EV Mobility</b>	<b>133,600</b>	<b>160,320</b>	<b>200,400</b>	<b>260,520</b>
...YoY		20%	25%	30%
<b>Systems Products</b>	<b>1,099,230</b>	<b>1,242,130</b>	<b>1,428,449</b>	<b>1,642,717</b>
...YoY		13%	15%	15%
<b>Others</b>	<b>200,210</b>	<b>180,189</b>	<b>185,595</b>	<b>191,163</b>
...YoY		-10%	3%	3%
<b>Total</b>	<b>4,490,215</b>	<b>4,577,966</b>	<b>4,997,537</b>	<b>5,503,527</b>
...YoY		2.0%	9.2%	10.1%

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with new TP of HK\$ 1.84

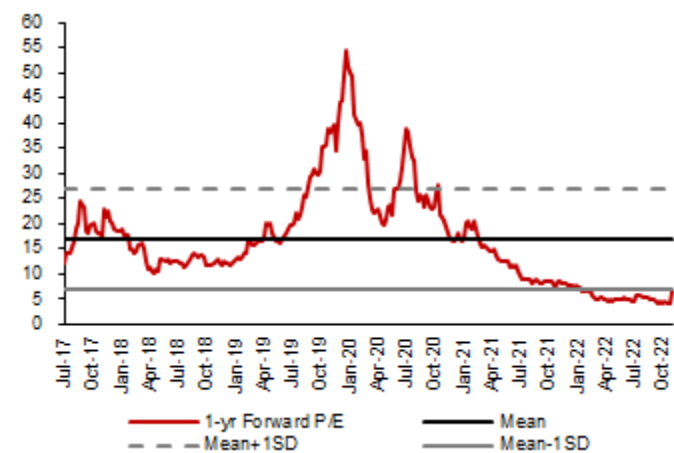
Our new 12m TP of HK\$ 1.84 is based on rollovered 8x FY23E P/E. Trading at 7.0x/6.2x FY22/23E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Global Connectors</b>												
TE	TEL US	NR	39,477	124.11	NA	NA	17.0	17.6	3.7	3.4	22.0	20.1
Amphenol	APH US	NR	47,203	79.32	NA	NA	26.7	26.1	7.1	6.3	28.1	26.7
Fabrinet	FN US	NR	4,625	126.42	NA	NA	21.1	16.7	3.6	3.2	18.7	21.0
Aviat	6807 JP	NR	1,540	2316.00	NA	NA	15.5	11.7	1.4	1.2	9.2	11.0
Hirose	6806 JP	NR	4,946	18440.00	NA	NA	22.6	17.0	2.0	1.8	8.8	10.7
Luxshare	002475 CH	BUY	31,436	31.43	52.3	66%	22.3	18.1	4.1	3.4	18.2	18.6
Cheng Uei	2392 TT	NR	570	34.70	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	2,215	48.85	NA	NA	11.9	11.1	0.5	0.5	5.3	5.7
Hon Hai	2317 TT	NR	44,436	100.00	NA	NA	9.5	8.7	0.9	0.9	10.0	10.5
<b>Average</b>							<b>18.3</b>	<b>15.9</b>	<b>2.9</b>	<b>2.6</b>	<b>15.0</b>	<b>15.5</b>
<b>China technology</b>												
FIT Hon Teng	6088 HK	BUY	1,347	1.45	1.84	27%	7.0	6.2	0.5	0.5	7.4	7.9
AAC Tech	2018 HK	HOLD	2,752	17.90	15.4	-14%	24.3	15.0	0.9	0.8	3.5	5.6
Sunny Optical	2382 HK	HOLD	12,583	89.90	102.3	14%	32.3	21.9	3.8	3.3	11.8	15.3
Tongda	698 HK	BUY	112	0.09	0.2	144%	3.0	2.3	0.1	0.1	2.3	3.0
BYDE	285 HK	HOLD	7,059	24.55	20.4	-17%	30.2	17.9	1.9	1.8	6.4	9.9
Q tech	1478 HK	BUY	585	3.87	5.6	45%	15.1	7.4	0.8	0.8	5.5	10.3
TK Group	2283 HK	BUY	168	1.58	3.4	114%	3.9	3.0	0.7	0.6	18.6	20.7
FIH	2038 HK	NR	800	0.79	NA	NA	-	16.8	-	-	-	2.8
Truly	732 HK	NR	488	1.19	NA	NA	4.1	3.4	0.3	0.3	8.2	9.2
YOFC	6869 HK	NR	2,585	13.36	NA	NA	8.1	6.8	0.9	0.8	10.6	11.3
Ju Teng	3336 HK	NR	196	1.28	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	1,449	13.56	NA	NA	18.0	13.3	3.5	2.8	22.2	24.6
<b>Average</b>							<b>14.6</b>	<b>10.4</b>	<b>1.3</b>	<b>1.2</b>	<b>9.8</b>	<b>10.9</b>

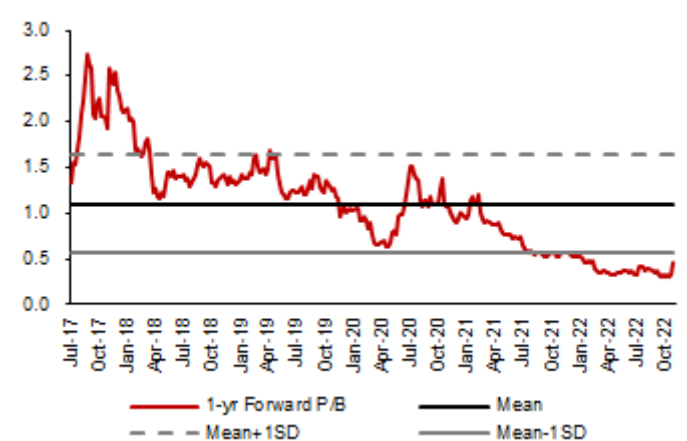
Source: Bloomberg, CMBIGM, \* TP under review

Figure 7: 12M forward P/E band



Source: Company data, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Revenue</b>	<b>4,372</b>	<b>4,315</b>	<b>4,490</b>	<b>4,578</b>	<b>4,998</b>	<b>5,504</b>
Cost of goods sold	(3,618)	(3,735)	(3,817)	(3,855)	(4,207)	(4,627)
<b>Gross profit</b>	<b>754</b>	<b>580</b>	<b>673</b>	<b>723</b>	<b>791</b>	<b>877</b>
Selling expense	(111)	(97)	(105)	(101)	(110)	(124)
Admin expense	(159)	(134)	(161)	(151)	(160)	(176)
R&D expense	(250)	(235)	(301)	(298)	(325)	(358)
Others	39	11	70	46	50	55
<b>Operating profit</b>	<b>275</b>	<b>125</b>	<b>177</b>	<b>220</b>	<b>246</b>	<b>274</b>
Share of (losses)/profits of associates/JV	(2)	(9)	(8)	(4)	(4)	(4)
Interest expense	(7)	1	(2)	(1)	1	2
<b>Pre-tax profit</b>	<b>266</b>	<b>117</b>	<b>167</b>	<b>215</b>	<b>243</b>	<b>272</b>
Income tax	(33)	(74)	(31)	(32)	(36)	(41)
Minority interest	(2)	0	(1)	1	1	1
<b>Net profit</b>	<b>233</b>	<b>43</b>	<b>137</b>	<b>183</b>	<b>207</b>	<b>231</b>
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Current assets</b>	<b>2,742</b>	<b>2,848</b>	<b>3,034</b>	<b>2,993</b>	<b>3,447</b>	<b>3,605</b>
Cash & equivalents	892	766	769	833	894	1,028
Account receivables	930	872	1,033	909	1,211	1,123
Inventories	703	944	982	1,002	1,093	1,204
ST bank deposits	118	126	98	98	98	98
<b>Non-current assets</b>	<b>1,665</b>	<b>1,791</b>	<b>1,973</b>	<b>2,016</b>	<b>2,049</b>	<b>2,071</b>
PP&E	566	728	823	867	900	921
Deferred income tax	115	135	133	133	133	133
Investment in JVs & assos	22	24	172	172	172	172
Intangibles	745	709	634	634	634	634
Other non-current assets	218	195	211	211	211	211
<b>Total assets</b>	<b>4,407</b>	<b>4,639</b>	<b>5,007</b>	<b>5,009</b>	<b>5,496</b>	<b>5,676</b>
<b>Current liabilities</b>	<b>1,662</b>	<b>1,790</b>	<b>1,937</b>	<b>1,797</b>	<b>2,122</b>	<b>2,121</b>
Short-term borrowings	494	604	690	635	675	720
Account payables	1,086	1,032	1,138	1,053	1,338	1,292
Tax payable	63	129	94	94	94	94
Other current liabilities	20	26	15	15	15	15
<b>Non-current liabilities</b>	<b>668</b>	<b>659</b>	<b>674</b>	<b>674</b>	<b>674</b>	<b>674</b>
Long-term borrowings	574	575	576	576	576	576
Obligations under finance leases	23	29	46	46	46	46
Other non-current liabilities	71	55	52	52	52	52
<b>Total liabilities</b>	<b>2,330</b>	<b>2,449</b>	<b>2,611</b>	<b>2,470</b>	<b>2,796</b>	<b>2,795</b>
Share capital	134	135	139	139	139	139
Other reserves	2,025	2,145	2,348	2,490	2,650	2,829
<b>Total shareholders equity</b>	<b>2,077</b>	<b>2,190</b>	<b>2,396</b>	<b>2,539</b>	<b>2,700</b>	<b>2,881</b>
Minority interest	11	3	1	2	3	5
<b>Total equity and liabilities</b>	<b>4,407</b>	<b>4,639</b>	<b>5,007</b>	<b>5,009</b>	<b>5,496</b>	<b>5,676</b>
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>266</b>	<b>117</b>	<b>167</b>	<b>215</b>	<b>243</b>	<b>272</b>
Depreciation & amortization	255	241	146	156	167	178
Tax paid	(74)	(39)	(31)	(32)	(36)	(41)
Change in working capital	(169)	(279)	(93)	20	(108)	(70)
Others	34	74	(104)	1	(1)	(2)
<b>Net cash from operations</b>	<b>313</b>	<b>115</b>	<b>85</b>	<b>360</b>	<b>265</b>	<b>338</b>
<b>Investing</b>						
Capital expenditure	(240)	(335)	(241)	(200)	(200)	(200)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(178)	(21)	461	12	13	15
<b>Net cash from investing</b>	<b>(417)</b>	<b>(356)</b>	<b>220</b>	<b>(188)</b>	<b>(187)</b>	<b>(185)</b>
<b>Financing</b>						
Dividend paid	(59)	0	(30)	(40)	(45)	(51)
Net borrowings	0	0	86	(55)	40	45

Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(26)	(1)	0	0	0	0
Others	20	73	65	(13)	(13)	(13)
<b>Net cash from financing</b>	<b>(64)</b>	<b>71</b>	<b>120</b>	<b>(108)</b>	<b>(18)</b>	<b>(18)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,065	892	766	769	833	894
Exchange difference	(4)	43	0	0	0	0
<b>Cash at the end of the year</b>	<b>892</b>	<b>766</b>	<b>769</b>	<b>833</b>	<b>894</b>	<b>1,028</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	9.2%	(1.3%)	4.1%	2.0%	9.2%	10.1%
Gross profit	6.5%	(23.1%)	16.1%	7.5%	9.4%	10.8%
Operating profit	(10.8%)	(54.7%)	41.6%	24.4%	12.1%	11.2%
Net profit	0.3%	(81.8%)	221.3%	33.8%	12.9%	11.9%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	17.2%	13.4%	15.0%	15.8%	15.8%	15.9%
Operating margin	6.3%	2.9%	3.9%	4.8%	4.9%	5.0%
Return on equity (ROE)	11.6%	2.0%	6.0%	7.4%	7.9%	8.3%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.6	1.6	1.6	1.7	1.6	1.7
Receivable turnover days	77.7	73.7	84.0	72.5	88.4	74.5
Inventory turnover days	70.9	92.3	93.9	94.8	94.9	95.0
Payable turnover days	109.6	100.8	108.8	99.7	116.1	101.9
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	12.1	55.1	13.4	7.0	6.2	5.6
P/B	1.3	1.1	0.8	0.5	0.5	0.4
Div yield (%)	0.0	39.9	164.4	312.1	352.4	394.4

Note: The calculation of net cash includes financial assets. Source: Company data, CMBIGM estimates

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