

FIT Hon Teng (6088 HK)

Positive on the acquisition of Germany automotive component supplier; Reiterate BUY

We spoke to FIT's mgmt. following its announcement that its wholly-owned subsidiary FIT Singapore will fully acquire Germany-based automotive component company, Prettl SWH Group ("Prettl"), for EUR186.6mn (6.0 times of FY22E EBITDA). The deal is targeted to close by 2Q23E, and the deal value accounts for 23% of FIT's 1H22 cash. We estimate the acquisition is likely to increase FIT's topline by 7-8% and EPS by 3-4% in FY24E. Prettl is specialized in automotive sensor cables, wiring harness and power management products. We believe Prettl's product portfolio and established client base will accelerate FIT's strategic expansion into automotive market, and it will also be positive to FIT's "3+3 Strategy" initiatives (EV, 5G AIoT, Audio), which will become the major growth drivers in FY23-24E. Reiterate BUY. Our TP/estimates are under review.

- **Prettl SWH will serve as a positive addition to FIT's automotive product portfolio.** We believe Prettl's expertise in automotive cable solutions, sensor technologies, wiring harnesses and power management products align well with FIT's automotive business. Prettl is well recognized by global tier-one clients from Europe, the US, Korea and China. Prettl SWH has 13 factories globally for automotive cable and component product production. We believe that FIT's acquisition of Prettl will lead to positive synergy in terms of stronger product portfolio, client base expansion, and global manufacturing & product development resources.
- **Total deal value is EUR 186.6mn (6x FY22E EBITDA); Expect profitability to improve post pandemic.** Total cost of the deal is EUR 186.6mn, which is approximately equal to 6x annualized Prettl's FY22E EBITDA. In 2020/21, Prettl's revenue reached EUR318.5mn/351.2mn and net profit after tax was EUR0.1mn/ (0.236mn) given COVID-19 impact. Mgmt. expected its financial performance will improve in 2023/24E, and the deal will be likely to close in 2Q23E if related procedures go smoothly. The deal value accounts for 23% of FIT's 1H22 cash, and we estimate the acquisition is likely to increase FIT's revenue by 7-8% and EPS by 3-4% in FY24E.
- **Reiterate BUY; Our FY22-24E EPS are 15-28% above consensus.** We believe the deal is positive for FIT with anticipation of accelerated expansion into EV component market. EV segment accounted for 3% of 3Q22 revenue, and we estimate the acquisition will boost EV segment to reach 10-11% of FY24E revenue. Our FY22-24E EPS are 15-28% above consensus. Trading at 9.0x/8.1x FY22/23E P/E, we think risk-reward remains extremely attractive. Reiterate BUY. We are reviewing our estimates.

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\$ cents)	na	na	2.20	2.30	2.80
P/E (x)	42.0	13.1	10.2	9.0	8.1
P/B (x)	0.8	0.7	0.7	0.7	0.6
Yield (%)	0.5	1.7	2.2	2.4	2.7
ROE (%)	2.0	6.0	7.4	7.9	8.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$1.84
(Previous TP)	HK\$1.84)
Up/Downside	-11%
Current Price	HK\$2.08

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Stock Data

Mkt Cap (HK\$ mn)	15,163.0
Avg 3 mths t/o (HK\$ mn)	1.1
52w High/Low (HK\$)	2.27/0.88
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

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

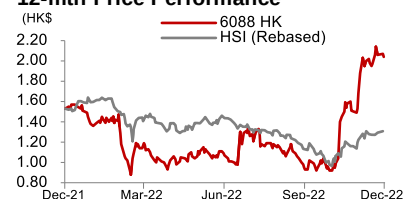
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	NM	NM
3-mth	NM	NM
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- [FIT Hon Teng \(6088 HK\) – 3Q22 beat on solid execution of "3+3 Strategy"; Raise TP to HK\\$1.84 – 14 Nov 2022](#)
- [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](#)

Figure 1: P&L forecast

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,372	4,315	4,490	4,578	4,998	5,504
...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)
Gross profit	754	580	673	723	791	877
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%
Operating profit	275	125	177	220	246	274
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%
Net profit	235	43	138	182	205	230
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 2: Revenue breakdown

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

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	4,372	4,315	4,490	4,578	4,998	5,504
Cost of goods sold	(3,618)	(3,735)	(3,817)	(3,855)	(4,207)	(4,627)
Gross profit	754	580	673	723	791	877
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
Operating profit	275	125	177	220	246	274
Share of (losses)/profits of associates/JV	(2)	(9)	(8)	(4)	(4)	(4)
Interest expense	(7)	1	(2)	(1)	1	2
Pre-tax profit	266	117	167	215	243	272
Income tax	(33)	(74)	(31)	(32)	(36)	(41)
Minority interest	(2)	0	(1)	1	1	1
Net profit	233	43	137	183	207	231
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	2,742	2,848	3,034	2,993	3,447	3,605
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
Non-current assets	1,665	1,791	1,973	2,016	2,049	2,071
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
Total assets	4,407	4,639	5,007	5,009	5,496	5,676
Current liabilities	1,662	1,790	1,937	1,797	2,122	2,121
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
Non-current liabilities	668	659	674	674	674	674
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
Total liabilities	2,330	2,449	2,611	2,470	2,796	2,795
Share capital	134	135	139	139	139	139
Other reserves	2,025	2,145	2,348	2,490	2,650	2,829
Total shareholders equity	2,077	2,190	2,396	2,539	2,700	2,881
Minority interest	11	3	1	2	3	5
Total equity and liabilities	4,407	4,639	5,007	5,009	5,496	5,676
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	266	117	167	215	243	272
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)
Net cash from operations	313	115	85	360	265	338
Investing						
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
Net cash from investing	(417)	(356)	220	(188)	(187)	(185)
Financing						
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)
Net cash from financing	(64)	71	120	(108)	(18)	(18)
Net change in cash						
Cash at the beginning of the year	1,065	892	766	769	833	894
Exchange difference	(4)	43	0	0	0	0
Cash at the end of the year	892	766	769	833	894	1,028
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	12.1	55.1	13.4	na	na	na
P/B	1.3	1.1	0.8	na	na	na
Div yield (%)	0.0	39.9	164.4	na	na	na

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

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