

FIT Hon Teng (6088 HK)

FY23E preview: earnings recovery on track, multiple growth drivers in FY24/25E

FIT Hon Teng will announce its 4Q23/FY23E results in March. We estimate FY23E revenue/net profit of US\$ 4,184mn/131mn (-8%/-23% YoY) and 4Q23 revenue/net profit of US\$1,235mn/76.0mn (+7%/+121% YoY), largely in-line with guidance, given weak CE demand, SP business price pressure, networking product portfolio alternation and auto business integration. Looking ahead, we are positive in new product ramp-up (high-speed connectivity products/DDR5 connectors/CPU sockets), auto business consolidation and audio product order wins in FY24/25E. We slightly trimmed our topline estimates for FY23/24E due to smartphone price pressure and lowered shipment demand of the key customer. Our new TP of HK\$2.02 is based on same 11x FY24E P/E (30% below 5-year hist. avg.). Reiterate BUY. Upcoming catalysts include TWS project progress and updates on product applications in AI-related fields.

■ **4Q23 preview: expect strong revenue/earnings recovery.** We estimate 4Q23E revenue/net profit of US\$1,235mn/76.0mn (+7%/+121% YoY), vs -9%/+10% YoY in 3Q23. By segment, we expect smartphone/networking/computing/EV/system product to grow -5%/-14%/+8%/+218%/-3% YoY, given benefits from Voltaira auto business consolidation along with mild PC market recovery. We think 4Q23 NPM will recover to 6.2% (vs. -1.1%/0.04%/4.7% in 1Q/2Q/3Q23) backed by improving product mix and less expense burden. Overall, we estimate FY23E revenue/net profit of US\$ 4,184mn/131mn (-8%/-23% YoY), largely in-line with guidance.

■ **FY24E outlook: across-the-board recovery with improving product mix; Eye on AirPods share gain.** We expect revenue upside from new products (CPU sockets, DDR5 connectors and high-speed connectivity products) in FY24E along with benefits from Voltaira auto business consolidation. We believe AirPods order wins will materialize starting from 2H24E, which makes FIT potentially the second largest supplier with rapid share gain in FY24/25E.

■ **Attractive risk/reward, multiple growth drivers in FY24/25E; Reiterate BUY.** We think current valuation at 6.4x/5.1x FY23/24E P/E is extremely attractive (1-sd below 5-year hist. avg.), given our positive view on earnings recovery and multiple growth drivers in FY24/25E. Our new TP of HK\$2.02 is based on the same 11x FY24E P/E. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	4,490	4,531	4,184	4,578	5,137
YoY growth (%)	4.1	0.9	(7.7)	9.4	12.2
Net profit (US\$ mn)	136.8	170.3	130.3	164.2	221.7
YoY growth (%)	221.3	24.5	(23.5)	26.0	35.0
EPS (Reported) (US\$ cents)	2.04	2.42	1.87	2.36	3.18
Consensus EPS (US\$)	N/A	N/A	2.00	1.80	2.50
P/E (x)	13.4	6.6	6.4	5.1	3.8
P/B (x)	0.8	0.5	0.3	0.3	0.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	6.0	7.2	5.4	6.4	8.1
Net gearing (%)	N/A	N/A	N/A	N/A	N/A

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$2.02**

(Previous TP) HK\$2.06

Up/Downside **114.6%**

Current Price **HK\$0.94**

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Stock Data

Mkt Cap (HK\$ mn)	6,831.0
Avg 3 mths t/o (HK\$ mn)	4.9
52w High/Low (HK\$)	2.22/0.90
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

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

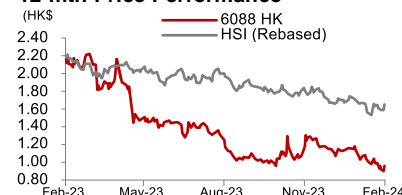
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-18.3%	-16.0%
3-mth	-20.3%	-12.5%
6-mth	-24.8%	-8.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- FIT Hon Teng (6088 HK)-3Q23 earnings beat on better product mix and record-high GPM ([link](#))
- FIT Hon Teng (6088 HK)-Weak 1H23 in-line; Positive outlook in 2H23E ([link](#))
- FIT Hon Teng (6088 HK)-NDR takeaways: Multiple growth drivers and margin recovery in FY24/25E; Maintain BUY ([link](#))
- FIT Hon Teng (6088 HK) - Recent sell-off overdone; Positive on investments and margin recovery in FY24/25E ([link](#))

FY23E Results Preview

Figure 1: 4Q23/FY23E Preview

(US\$ 000)	1Q23	2Q23	3Q23	4Q23E	FY23E
Smartphones	230,000	215,883	305,000	232,734	983,617
...YoY	-20%	-34%	-24%	-5%	-22%
Networking	105,000	113,936	97,000	143,915	459,851
...YoY	-44%	-34%	-57%	-14%	-39%
Computing	170,000	207,342	211,000	214,972	803,314
...YoY	-19%	3%	1%	8%	-2%
EV Mobility	38,000	33,644	133,000	132,889	337,533
...YoY	-12%	16%	241%	218%	121%
Systems Products	273,000	305,893	376,000	447,466	1,402,359
...YoY	0%	9%	7%	3%	5%
Others	46,000	45,382	43,000	62,838	197,220
...YoY	-10%	18%	-16%	-6%	-5%
Revenue	862,000	922,080	1,165,000	1,234,813	4,183,893
...YoY	-18%	-12%	-9%	7%	-8%
Net profit	(9,297)	345	54,906	75,982	130,888
NPM (%)	-1.1%	0.0%	4.7%	6.2%	3%
...YoY	-130%	-99%	10%	121%	-23%

Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown

US\$ 000	FY22	1H23	2H23E	FY23E	FY24E	FY25E
Computing	819,708	377,342	425,972	803,314	859,546	971,287
...YoY	2%	-8%	4%	-2%	7%	13%
Smartphones	1,261,047	445,883	537,734	983,617	904,927	950,174
...YoY	-3%	-27%	-17%	-22%	-8%	5%
Networking	753,854	218,936	240,915	459,851	528,829	608,153
...YoY	-14%	-40%	-39%	-39%	15%	15%
EV Mobility	152,814	71,644	265,889	337,533	558,317	694,205
...YoY	10%	-1%	229%	121%	65%	24%
EV business	152,814	71,644	65,889	137,533	158,162	181,887
Prettl SWH	-	-	200,000	200,000	400,155	512,318
System Products	1,335,580	578,893	823,466	1,402,359	1,523,102	1,704,426
...YoY	20%	5%	5%	5%	9%	12%
Key audio product	-	-	-	-	50,625	202,500
Others	207,600	91,382	105,838	197,220	203,137	209,231
...YoY	-17%	2%	-10%	-5%	3%	3%
Total	4,530,603	1,784,080	2,399,813	4,183,893	4,577,857	5,137,475
...YoY	0.9%	-15.1%	-1.2%	-7.7%	9.4%	12.2%

Source: Company data, CMBIGM estimates

Figure 3: P&L forecast

US\$ mn	FY22	1H23	2H23E	FY23E	FY24E	FY25E
Revenue	4,531	1,784	2,400	4,184	4,578	5,137
...YoY	0.9%	-15.1%	-1.2%	-7.7%	9.4%	12.2%
Cost of sales	-3,763	-1,501	-1,907	-3,408	-3,738	-4,183
Gross profit	768	283	493	776	840	954
GPM (%)	17%	16%	21%	19%	18%	19%
...YoY	14.1%	-19.3%	18.3%	1.1%	8.2%	13.6%
SG&A	-223	-117	-188	-305	-334	-349
...% of rev	-4.9%	-6.6%	-7.8%	-7.3%	-7.3%	-6.8%
R&D	-296	-139	-141	-280	-307	-344
...% of rev	-6.5%	-7.8%	-5.9%	-6.7%	-6.7%	-6.7%
Operating profit	307	47	196	244	259	328
OPM (%)	6.8%	2.6%	8.2%	5.8%	5.6%	6.4%
...YoY	74.0%	-60.7%	4.6%	-20.6%	6.0%	26.7%
Net profit	170	-9	140	131	165	223
NPM (%)	3.7%	-0.5%	5.8%	3.1%	3.6%	4.3%
...YoY	23.2%	-110.5%	70.0%	-22.8%	26.0%	35.0%

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 4: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,184	4,578	5,137	4,345	4,841	5,327	-4%	-5%	-4%
Gross profit	776	840	954	803	854	941	-3%	-2%	1%
Operating profit	244	259	328	250	263	312	-3%	-2%	5%
Net profit	131	165	223	135	169	210	-3%	-2%	6%
EPS (USD cents)	1.87	2.36	3.18	1.94	2.41	3.00	-3%	-2%	6%
Gross margin	18.6%	18.3%	18.6%	18.5%	17.6%	17.7%	0.1 ppt	0.7 ppt	0.9 ppt
Operating margin	5.8%	5.6%	6.4%	5.8%	5.4%	5.9%	0.1 ppt	0.2 ppt	0.5 ppt
Net Margin	3.1%	3.6%	4.3%	3.1%	3.5%	3.9%	0 ppt	0.1 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

(US\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	4,184	4,578	5,137	4,201	4,580	5,066	0%	0%	1%
Gross profit	776	840	954	752	821	935	3%	2%	2%
Operating profit	244	259	328	224	223	249	9%	16%	32%
Net profit	131	165	223	144	144	174	-9%	14%	28%
EPS (USD cents)	1.87	2.36	3.18	2.00	1.80	2.50	-6%	31%	27%
Gross margin	18.6%	18.3%	18.6%	17.9%	17.9%	18.5%	0.6 ppt	0.4 ppt	0.1 ppt
Operating margin	5.8%	5.6%	6.4%	5.3%	4.9%	4.9%	0.5 ppt	0.8 ppt	1.5 ppt
Net Margin	3.1%	3.6%	4.3%	3.4%	3.2%	3.4%	-0.3 ppt	0.5 ppt	0.9 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.02

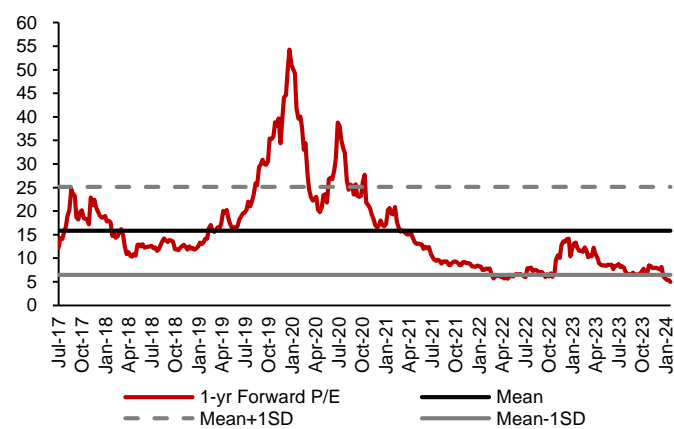
Our new 12m TP of HK\$ 2.02 is based on the same 11x FY24E P/E (30% discount to 5-year hist. avg.), given accelerated growth on “3+3 Strategy” and profitability recovery. Trading at 6.4x/5.1x FY23/24E P/E, we think risk-reward is attractive. Upcoming catalysts include continued revenue upside from auto business consolidation, AirPods share gain, boosted connectivity product applications in AI servers 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 (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Global Connectors												
TE	TEL US	NR	43,710	141.55	NA	NA	21.1	18.7	3.9	3.2	19.1	18.5
Amphenol	APH US	NR	61,488	102.77	NA	NA	34.7	31.2	7.7	6.5	24.4	22.7
Fabrinet	FN US	NR	6,624	182.43	NA	NA	24.0	21.8	4.5	3.8	20.6	18.3
Aviat	6807 JP	NR	1,532	2457.00	NA	NA	14.5	18.1	1.3	1.1	9.4	7.1
Hirose	6806 JP	NR	3,977	16240.00	NA	NA	16.0	20.5	1.6	1.5	10.1	7.7
Luxshare	002475 CH	BUY	28,099	28.23	47.0	66%	18.2	14.4	2.0	1.8	10.9	12.3
Foxconn	2354 TT	NR	2,264	50.20	NA	NA	11.6	9.3	0.5	0.4	5.8	7.0
Hon Hai	2317 TT	NR	44,873	101.50	NA	NA	10.7	9.5	0.9	0.9	8.9	9.4
Average							17.9	17.0	2.6	2.2	13.0	12.5
China technology												
FIT Hon Teng	6088 HK	BUY	876	0.94	2.02	115%	6.4	5.1	0.3	0.3	5.3	6.2
AAC Tech	2018 HK	HOLD	2,710	17.68	*14.0	-21%	31.1	17.8	0.8	0.8	2.7	4.6
Sunny Optical	2382 HK	HOLD	6,879	49.05	50.7	3%	41.9	23.2	2.1	2.0	5.0	8.6
Tongda	698 HK	BUY	108	0.09	0.2	95%	4.8	3.0	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	8,212	28.50	45.9	61%	14.6	10.7	2.0	1.7	13.4	15.7
Q tech	1478 HK	BUY	433	2.86	3.6	26%	10.3	5.3	0.6	0.6	5.9	10.3
TK Group	2283 HK	BUY	144	1.35	3.1	129%	4.8	3.6	0.6	0.6	13.3	16.3
YOFC	6869 HK	NR	1,745	7.76	NA	NA	4.2	4.4	0.5	0.5	11.3	10.5
Cowell	1415 HK	NR	1,874	17.18	NA	NA	29.3	16.8	4.4	3.5	14.9	22.3
Average							16.4	10.0	1.3	1.1	8.2	10.9

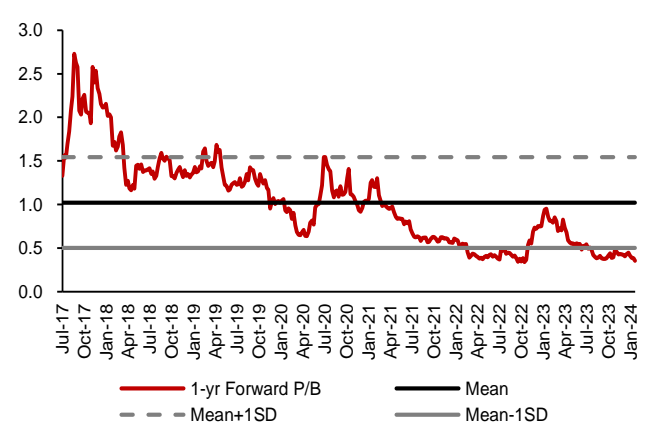
Source: Bloomberg, CMBIGM. *TP under review.

Figure 7: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 8: 12M forward P/B band



Source: Company data, Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	4,315	4,490	4,531	4,184	4,578	5,137
Cost of goods sold	(3,735)	(3,817)	(3,763)	(3,408)	(3,738)	(4,183)
Gross profit	580	673	768	776	840	954
Selling expense	(97)	(105)	(93)	(138)	(151)	(149)
Admin expense	(134)	(161)	(130)	(167)	(183)	(200)
R&D expense	(235)	(301)	(296)	(280)	(307)	(344)
Others	11	70	58	53	60	67
Operating profit	125	177	307	244	259	328
Share of (losses)/profits of associates/JV	(9)	(8)	(46)	(46)	(46)	(46)
Interest expense	1	(2)	(14)	(12)	(10)	(8)
Pre-tax profit	117	167	248	186	203	274
Income tax	(74)	(31)	(78)	(56)	(39)	(52)
Minority interest	0	(1)	1	(1)	(1)	(1)
Net profit	43	137	170	130	164	222

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	2,848	3,034	2,764	2,408	2,273	2,599
Cash & equivalents	766	769	914	453	261	224
Account receivables	872	1,033	720	899	872	1,115
Inventories	944	982	967	893	977	1,096
ST bank deposits	126	98	66	66	66	66
Non-current assets	1,791	1,973	1,783	2,238	2,754	2,682
PP&E	728	823	753	1,208	1,723	1,652
Deferred income tax	135	133	131	131	131	131
Investment in JVs & assos	24	172	123	123	123	123
Intangibles	709	634	601	601	601	601
Other non-current assets	195	211	175	175	175	175
Total assets	4,639	5,007	4,547	4,646	5,027	5,281
Current liabilities	1,790	1,937	1,539	1,507	1,725	1,757
Short-term borrowings	604	690	453	453	453	453
Account payables	1,032	1,138	971	939	1,156	1,189
Tax payable	129	94	98	98	98	98
Other current liabilities	26	15	18	18	18	18
Non-current liabilities	659	674	661	661	661	661
Long-term borrowings	575	576	575	575	575	575
Obligations under finance leases	29	46	43	43	43	43
Other non-current liabilities	55	52	43	43	43	43
Total liabilities	2,449	2,611	2,200	2,168	2,385	2,418
Share capital	135	139	142	142	142	142
Other reserves	2,145	2,348	2,295	2,425	2,590	2,811
Total shareholders equity	2,190	2,396	2,347	2,477	2,641	2,863
Minority interest	3	1	2	2	2	2
Total equity and liabilities	4,639	5,007	4,547	4,646	5,027	5,281

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	117	167	248	186	203	274
Depreciation & amortization	241	146	270	345	434	472
Tax paid	(39)	(31)	(78)	(56)	(39)	(52)
Change in working capital	(279)	(93)	161	(137)	159	(330)
Others	74	(104)	0	0	0	0
Net cash from operations	115	85	602	339	758	364
Investing						
Capital expenditure	(335)	(241)	(200)	(800)	(950)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(21)	461	0	0	0	0
Net cash from investing	(356)	220	(200)	(800)	(950)	(400)
Financing						
Dividend paid	0	(30)	0	0	0	0
Net borrowings	0	86	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1)	0	0	0	0	0
Others	73	65	0	0	0	0
Net cash from financing	71	120	0	0	0	0
Net change in cash						
Cash at the beginning of the year	892	766	769	914	453	261
Exchange difference	43	0	0	0	0	0
Cash at the end of the year	766	769	914	453	261	224
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(1.3%)	4.1%	0.9%	(7.7%)	9.4%	12.2%
Gross profit	(23.1%)	16.1%	14.1%	1.1%	8.2%	13.6%
Operating profit	(54.7%)	41.6%	74.0%	(20.6%)	6.0%	26.7%
Net profit	(81.8%)	221.3%	24.5%	(23.5%)	26.0%	35.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	13.4%	15.0%	16.9%	18.6%	18.3%	18.6%
Operating margin	2.9%	3.9%	6.8%	5.8%	5.6%	6.4%
Return on equity (ROE)	2.0%	6.0%	7.2%	5.4%	6.4%	8.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	na	na	na	na	0.0	0.0
Current ratio (x)	1.6	1.6	1.8	1.6	1.3	1.5
Receivable turnover days	73.7	84.0	58.0	78.4	69.6	79.2
Inventory turnover days	92.3	93.9	93.8	95.6	95.4	95.7
Payable turnover days	100.8	108.8	94.2	100.6	112.9	103.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	55.1	13.4	6.6	6.4	5.1	3.8
P/B	1.1	0.8	0.5	0.3	0.3	0.3
Div yield (%)	39.9	164.4	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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