



Company Report: FIT Hon Teng (06088 HK)

公司报告: 鸿腾精密 (06088 HK)

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13 May 2024

1Q2024 Results Were in Line with Expectations; 3+3 Strategy to Bring Continuous Increment, "Buy"

- **We maintain the investment rating as "Buy" and set TP to HK\$2.42.** We forecast 2024-2026 EPS to be US\$0.025/ US\$0.034/ US\$0.042, respectively. Considering future performance growth rate and historical valuation level, we give 12.5x 2024 PER, corresponding to TP of HK\$2.42 and maintain the investment rating as "Buy".
- **FIT Hon Teng's (the "Company") 1Q2024 results were in line with our expectations.** Revenue in 1Q2024 increased 12.0% yoy to US\$965 million. The gross profit margin of the Company increased by 4.5 ppts yoy to 20.3%, while gross profit increased by 44% yoy. Shareholders' net profit reached US\$10 million.
- **TWS business for major customers in North America is expected to ramp up in 2H2024, and accelerate in 2025.** The Company's first AirPods production line is in Vietnam, and has already started shipping in 1Q2024; the corresponding business is expected to account for 5%-7% of the Company's total revenue. The Company is planning to add six more production lines in India in 2025. Thus, we expect production capacity to surge and the corresponding revenue to grow in 2025. We expect the Company's share in AirPods will exceed 30% in the future.
- **We expect the Company's earnings to recover continuously.** The management expects the 2024 full year revenue to achieve a double-digit growth, while gross margin to stabilize at around 20%, and operating profit to increase significantly. The Company also wishes to control its major three operating expenses to lower than 13% in 2025 (14.4% in 2023). The Company expects that revenue mix from EV Mobility, new Generation 5G IoT and Audio will reach 30% in 2024 and 40% in 2025. Promoted by continuous production line expansion of AirPods, synergy from acquisition of FIT Voltaira, as well as opportunities brought by AI, we expect the Company's revenue to achieve a double-digit growth in 2024-2026, while earnings to grow faster.
- **Catalysts:** Share in AirPods business may exceed market expectations; quicker-than-expected expansion in AI market.
- **Risks:** More intense than expected market competition of EV mobility business; less than expected penetration of TWS products; less than expected demand for servers and storage.

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$2.42

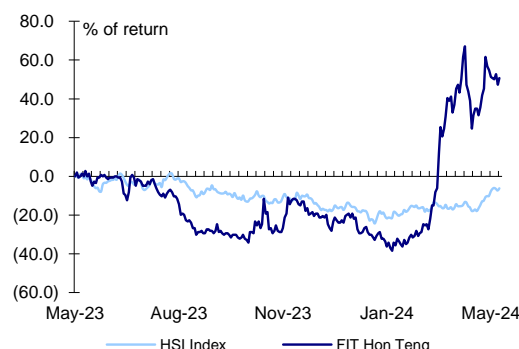
HK\$1.65

Share price 股价:

HK\$1.950

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	-20.1	101.0	33.6
Rel. % to HS Index 相对恒指变动 %	-30.7	80.6	37.6
Avg. Share price(HK\$) 平均股价 (港元)	2.1	1.6	1.3

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2022A	4,531	170	0.024	20.0	10.4	0.335	0.7	0.000	0.0	7.2
2023A	4,196	129	0.018	(25.0)	13.9	0.344	0.7	0.000	0.0	5.4
2024F	4,735	175	0.025	38.9	10.0	0.368	0.7	0.000	0.0	6.9
2025F	5,448	241	0.034	36.0	7.3	0.402	0.6	0.000	0.0	8.8
2026F	5,956	301	0.042	23.5	5.9	0.444	0.6	0.000	0.0	10.0
Shares in issue (m) 总股数 (m)			7,289.9		Major shareholder 大股东				Hon Hai Precision 71.2%	
Market cap. (HK\$ m) 市值 (HK\$ m)			14,215.3		Free float (%) 自由流通比率 (%)				28.8	
3 month average vol. 3 个月平均成交股数 ('000)			18,141.1		FY24 Net gearing (%) FY24 净负债/股东资金 (%)				0.3	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			2.470 / 0.880		FY24 Est. NAV (HK\$) FY24 每股估值 (港元)				2.8	

Source: the Company, Guotai Junan International.

We maintain the investment rating as "Buy" and set TP to HK\$2.42. We forecast 2024-2026 EPS to be US\$0.025/ US\$0.034/ US\$0.042, respectively. Considering future performance growth rate and historical valuation level, we give 12.5x 2024 PER, corresponding to TP of HK\$2.42 and maintain the investment rating as "Buy". The TP represents 12.5x/ 9.1x/ 7.3x 2024-2026 PER.

Table-1: FIT Hon Teng's 1Q2024 Revenue by Segment

(US\$ million)	1Q2024	1Q2023	YOY
Smartphones	202	225	-10.2%
Networking	114	105	8.6%
Computing	180	170	5.9%
EV Mobility	116	38	205.3%
System Products	296	277	6.9%

Source: the Company, Guotai Junan International.

FIT Hon Teng's 1Q2024 results were in line with our expectations. In 1Q2024, revenue increased by 12.0% yoy to US\$965 million (all segments except for smartphone segment recorded yoy growth). The gross profit margin of the Company increased by 4.5 ppts yoy to 20.3%, while gross profit increased by 44% yoy. Shareholders' net profit reached US\$10 million, compared to the net loss of US\$9 million in 1Q2023.

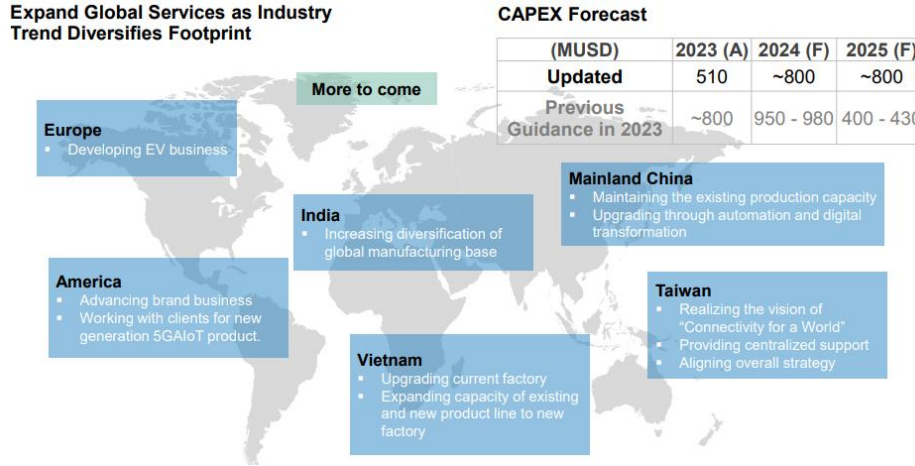
TWS business for major customers in North America is expected to ramp up in 2H2024, and accelerate in 2025. The Company's first AirPods production line is in Vietnam, and has already started shipping in 1Q2024; the corresponding business is expected to account for 5%-7% of the Company's total revenue. The Company is planning to add six more production lines in India in 2025. Thus, we expect production capacity to surge and the corresponding revenue to grow in 2025. We expect the Company's share in AirPods will exceed 30% in the future.

AI server to bring more expandable market. The management stated that the Company is able to gain opportunities in the US\$1.7 bn server connector and cable market. The Company plans to mass produce more AI-related products like EDSFF connectors, MCIO、MXIO, DA CEM Cable for PCIE 6.0, and CMM Socket for memory solution in 2H2024, which is expected to bring new growth momentum to the networking business.

We expect the Company's earnings to recover continuously. The management expects the 2024 full year revenue to achieve a double-digit growth, while gross margin to stabilize at around 20%, and operating profit to increase significantly. The Company also wishes to control its major three operating expenses to lower than 13% in 2025 (14.4% in 2023). Promoted by continuous production line expansion of AirPods, synergy from acquisition of FIT Voltaira, as well as opportunities brought by AI, we expect the Company's revenue to achieve a double-digit growth in 2024-2026, while earnings to grow faster.

"3+3" strategy will provide strong impetus for the Company's development. The Company implements "3+3" strategy, promoting the development of EVs, 5G AIoT and acoustics. In terms of EV business, electrification and intelligentization are the general trend of the automotive industry, putting forward higher requirements for automotive connectors. With a complete range of connector products, global layout and the assistance of MIH, EV business will become a strong driving force for the development of the Company. In terms of audio business, the Company has a mature acoustic product portfolio and it has become a supplier of TWS product of North American customers. Explosion of AI server brings huge demand for high-speed connection to transfer large volume data, thus we expect the Company to benefit from the construction of data centers promoted by AI development, and the corresponding copper-based and optical-based products will face a huge market demand. The Company expects that revenue mix from EV Mobility, new Generation 5G AIoT and Audio will reach 30% in 2024 and 40% in 2025.

Figure-1: Expand Global Services as Industry Trend Diversifies Footprint

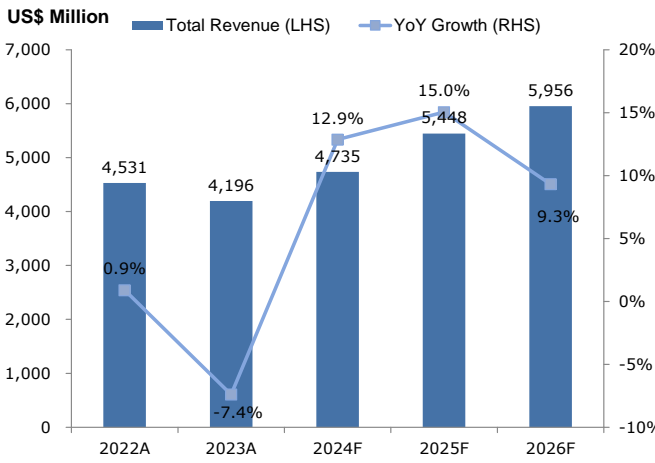


Source: Guotai Junan International.

Catalysts: Share in AirPods business may exceed market expectations; quicker-than-expected expansion in AI market.

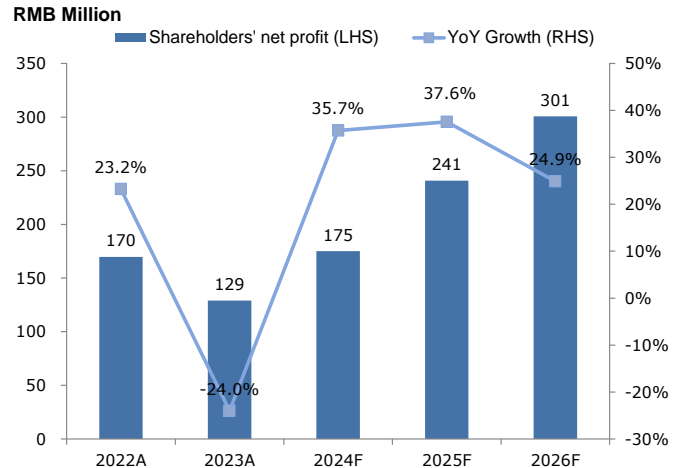
Risks: More intense than expected market competition of EV mobility business; less than expected penetration of TWS products; less than expected demand for servers and storage.

Figure-2: FIT Hon Teng's Total Revenue



Source: the Company, Guotai Junan International.

Figure-3: FIT Hon Teng's Profit Margins



Source: the Company, Guotai Junan International.

Table-1: Peers comparison

Company	Ticker	Currency	Price	Market Cap		PER			PBR			ROE (%)	D/Y (%)	EV/EBITDA
				(HKD Mil)	24F	25F	26F	24F	25F	26F	24F	24F	24F	
HK Listed Companies														
Fit Hon Teng Ltd	06088 HK	HKD	1.950	14,215	6.2	4.7	6.4	0.7	0.6	0.6	10.7	0.0	n.a.	
Byd Electronic Intl Co Ltd	00285 HK	HKD	33.100	74,581	13.5	10.7	9.0	2.1	1.8	1.6	16.0	1.7	7.9	
Aac Technologies Holdings In	02018 HK	HKD	27.150	32,539	21.0	16.1	13.9	1.2	1.1	1.0	6.4	0.8	7.3	
Sunny Optical Tech	02382 HK	HKD	42.150	46,146	22.5	16.5	13.8	1.8	1.6	1.5	7.9	0.9	8.1	
Q Technology Group Co Ltd	01478 HK	HKD	3.820	4,525	14.4	9.7	8.1	0.8	0.8	0.7	5.7	0.5	6.8	
Tongda Group Holdings Ltd	00698 HK	HKD	0.086	837	3.7	3.0	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Cowell E Holdings Inc	01415 HK	HKD	18.900	16,126	20.1	11.6	9.3	4.0	3.0	2.3	21.9	0.0	13.6	
Simple Average					14.5	10.3	9.0	1.8	1.5	1.3	11.4	0.6	8.7	
Weighted Average					17.0	12.6	10.8	1.9	1.6	1.4	12.2	1.1	8.3	
Mainland China Listed Companies														
Luxshare Precision Industr-A	002475 CH	CNY	29.500	229,043	15.2	12.3	10.4	3.0	2.4	2.0	20.2	0.9	8.7	
Wenzhou Yihua Connector Co-A	002897 CH	CNY	36.900	7,745	18.1	13.4	11.8	2.8	2.4	1.9	15.2	0.7	n.a.	
Cwb Automotive Electronics-A	605005 CH	CNY	17.000	7,374	23.0	21.3	20.0	3.4	3.1	n.a.	15.8	1.5	n.a.	
Suzhou Recodeal Interconne-A	688800 CH	CNY	30.140	5,165	20.4	14.4	13.4	2.2	2.0	1.8	10.8	0.9	12.3	
Goertek Inc -A	002241 CH	CNY	16.200	59,878	21.9	19.2	15.6	1.7	1.5	1.4	7.7	0.8	8.1	
Simple Average					15.2	12.3	10.4	3.0	2.4	2.0	20.2	0.9	8.7	
Weighted Average					16.8	13.9	11.7	2.7	2.3	1.9	17.4	0.9	8.7	
Taiwan Listed Companies														
Lotes Co Ltd	3533 TT	TWD	1,500.000	40,303	22.1	18.0	14.5	5.1	4.4	3.5	24.8	2.2	13.3	
Bizlink Holding Inc	3665 TT	TWD	228.000	8,981	10.7	9.0	8.2	1.5	1.3	1.2	14.3	5.0	5.3	
Aten Internation Co Ltd	6277 TT	TWD	80.300	2,312	14.5	11.0	n.a.	1.8	n.a.	n.a.	14.8	n.a.	n.a.	
Cheng Uei Precision Industry	2392 TT	TWD	48.750	6,020	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Simple Average					15.8	12.7	11.4	2.8	2.8	n.a.	17.9	3.6	9.3	
Weighted Average					19.8	16.1	13.4	4.3	3.8	n.a.	22.5	2.7	11.8	
US Listed Companies														
Te Connectivity Ltd	TEL US	USD	146.100	349,647	19.5	17.6	15.6	3.6	3.4	3.0	18.9	1.6	12.6	
Amphenol Corp-Cl A	APH US	USD	127.610	598,973	37.2	33.2	29.5	8.0	6.8	5.6	24.0	0.7	23.8	
Aptiv Plc	APTV US	USD	83.690	177,941	13.9	10.9	9.3	1.9	1.7	1.5	13.3	0.0	8.7	
Simple Average					23.5	20.6	18.1	4.5	4.0	3.4	18.8	0.8	15.1	
Weighted Average					28.0	24.8	22.0	5.7	4.9	4.2	20.7	0.9	18.0	
JP&KR Listed Companies														
Japan Aviation Electronics	6807 JP	JPY	2,503.000	11,596	18.3	14.1	12.7	1.3	1.3	1.2	8.2	2.2	4.7	
Hirose Electric Co Ltd	6806 JP	JPY	18,785.000	34,178	24.3	22.6	20.2	1.7	1.7	1.6	7.4	2.8	8.6	
Hosiden Corp	6804 JP	JPY	2,039.000	6,285	9.1	14.1	8.0	n.a.	n.a.	n.a.	n.a.	3.5	n.a.	
I-Pex Inc	6640 JP	JPY	1,750.000	1,644	14.8	12.2	12.2	0.5	0.5	0.5	3.0	2.3	n.a.	
Sumitomo Corp	8053 JP	JPY	4,243.000	260,464	13.4	10.1	9.6	1.2	1.1	1.0	9.4	3.4	13.9	
Iriso Electronics Co Ltd	6908 JP	JPY	3,225.000	3,979	13.6	13.7	12.7	1.0	1.0	0.9	7.8	3.0	4.2	
Fujikura Ltd	5803 JP	JPY	2,832.000	42,054	17.2	15.7	14.4	2.5	2.2	2.0	15.8	1.7	10.2	
Korea Electric Terminal Co	025540 KS	KRW	64,800.000	3,862	7.1	6.3	n.a.	0.7	6.0	n.a.	9.8	1.1	3.0	
Simple Average					12.5	12.1	9.9	0.9	0.8	0.8	6.2	3.1	13.9	
Weighted Average					14.9	12.1	11.3	1.4	1.3	1.2	9.9	3.1	12.4	
Overall Average					16.3	13.6	11.8	2.6	2.3	1.9	14.9	1.8	11.1	
Overall Weighted Average					19.3	15.9	13.8	3.2	2.8	2.2	16.5	1.7	11.8	

Source: Bloomberg.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (US\$ m)	2022A	2023A	2024F	2025F	2026F	Year end 31 Dec (US\$ m)	2022A	2023A	2024F	2025F	2026F
Total Revenue	4,531	4,196	4,735	5,448	5,956	PP&E	753	900	884	868	852
Cost of revenues	(3,763)	(3,388)	(3,765)	(4,402)	(4,824)	Intangible assets	601	700	668	638	612
Gross profit	768	807	971	1,046	1,132	Others	429	382	396	412	428
						Total Non-current Assets	1,783	1,982	1,948	1,918	1,892
Distribution costs and selling expenses	(93)	(105)	(118)	(125)	(131)	Inventories	967	802	842	884	928
Administrative expenses	(130)	(191)	(218)	(218)	(226)	Trade receivables	720	807	900	1,013	1,060
Research and development expenses	(296)	(308)	(369)	(365)	(387)	Cash & Cash Equivalents	914	1,316	1,452	1,488	1,663
(Recognition)/reversal of impairment/loss						Others	163	187	195	204	214
on financial assets	0	(2)	(2)	0	0	Total Current Assets	2,764	3,112	3,389	3,589	3,865
Other income	23	16	18	21	23	Total Assets	4,547	5,094	5,337	5,507	5,757
Other gains – net	35	45	47	54	60	Trade and other payables	971	1,095	1,127	1,161	1,196
Operating Profit	307	263	329	413	470	Borrowings	453	1,383	830	705	599
Finance income	17	30	32	29	33	Others	116	86	92	97	103
Finance costs	(31)	(63)	(65)	(63)	(52)	Total Current Liabilities	1,539	2,563	2,049	1,964	1,898
Share of results of associates	(46)	(50)	(52)	(45)	(33)	Borrowings	575	0	580	592	604
Profit Before Tax	248	179	243	334	417	Others	86	93	96	100	104
Income Tax	(78)	(50)	(67)	(92)	(115)	Total Non-current Liabilities	661	93	677	692	707
Profit After Tax	170	130	176	242	302	Total Liabilities	2,200	2,656	2,725	2,656	2,606
Non-controlling Interest	(1)	(1)	(1)	(1)	(1)	Share capital	142	142	142	142	142
Shareholders' Profit / Loss	170	129	175	241	301	Treasury shares	(92)	(92)	(93)	(94)	(95)
Basic EPS	0.024	0.018	0.025	0.034	0.042	Reserves	2,295	2,384	2,559	2,800	3,101
						Total Shareholders' Equity	2,345	2,435	2,609	2,849	3,149
						Minority Interest	2	3	3	3	3
						Total Equity	2,347	2,437	2,612	2,851	3,151
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (US\$ m)	2022A	2023A	2024F	2025F	2026F		2022A	2023A	2024F	2025F	2026F
Profit before tax	248	179	243	334	417	Gross profit margin (%)	16.9	19.2	20.5	19.2	19.0
D&A	232	220	235	231	228	Operating profit margin (%)	6.8	6.3	6.9	7.6	7.9
Change in working capital	93	146	(99)	(122)	(56)	Net profit margin (%)	3.7	3.1	3.7	4.4	5.0
Tax paid	(79)	(75)	(67)	(92)	(115)	ROA (%)	3.6	2.7	3.4	4.4	5.3
Others	62	103	16	15	(3)	ROE (%)	7.2	5.4	6.9	8.8	10.0
Cash from Operating Activities	556	574	328	367	471	Current ratio (x)	1.8	1.2	1.7	1.8	2.0
						Quick ratio (x)	1.2	0.9	1.2	1.4	1.5
CAPEX	(122)	(268)	(180)	(177)	(174)	Debt to equity ratio (%)	46.0	58.9	56.1	47.5	40.1
Others	56	(142)	26	22	24	Net gearing (%)	4.2	4.7	0.3	Net Cash	Net Cash
Cash from Investing Activities	(66)	(410)	(154)	(155)	(149)						
Change in borrowings	(226)	328	27	(113)	(94)						
Others	(45)	(79)	(65)	(63)	(52)						
Cash from Financing Activities	(270)	249	(38)	(176)	(146)						
Net Changes in Cash	220	412	136	36	175						
Cash at Beg of Year	769	914	1,316	1,452	1,488						
FX change	(75)	(10)	0	0	0						
Cash at End of Year	914	1,316	1,452	1,488	1,663						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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