

FIT Hon Teng (6088 HK)

Share pressure overdone; Raise estimates for stronger AirPods/AI server upside

FIT Hon Teng announced a positive profit alert for 1H24 earnings, at US\$28-33mn (vs net loss of US\$9mn in 1H23), mainly driven by stronger computing (PC)/ networking (server) segments and better operating efficiency. However, stock price is pressured by questions on 2024 earnings recovery pace and higher OPEX for AirPods and Voltaira biz. We are buyers on weakness given a back-loaded 2H24E with multiple product launches and operating leverage in 2H24E. We revise FY25/26E EPS estimates higher by 12%/10% to reflect better AI server demand and AirPods progress. We lift our TP to HK\$4.24 based on a rolled-over 13x FY25E P/E (vs prior 11x P/E), for a multiple-product cycle and higher earnings visibility. Recent stock correction is overdone, in our view. Reiterate BUY.

■ **Positive alert for 1H24 on stronger PC/server demand, but higher OPEX in focus.** FIT pre-announced 1H24 earnings of US\$28-33mn, implying US\$18-23mn in 2Q24 (vs US\$10mn in 1Q24), slightly below expectations mainly due to higher 2Q24 OPEX for AirPods initial ramp-up and Voltaira auto business, in our view. However, we believe 2024 earnings is back-loaded with AirPods product launches and GB200 server orders in 2H24E. For OPM, mgmt. maintained FY24E core OPM of 5.5% (vs 4.9% in 2023).

■ **AirPods/AI server momentum continuing into 2H24E; Expect upside from iPhone and general servers ahead.** We spoke to mgmt. post announcement and FIT reiterated a positive outlook and FY24E guidance driven by PC recovery, networking demand, Voltaira auto business and AirPods shipment. For networking biz, apart from GB200's compute tray connectors (7-9% of FY24E revenue), mgmt. expected potential order wins of copper cable cartridge in FY25E. For AirPods/iPhone, mgmt. is increasingly positive on the new product cycle backed by Apple Intelligence in 2H24E. Overall, we expect FIT's net profit to rebound 48%/54% YoY in FY24/25E.

■ **Market concerns overdone; Raise estimates for multiple growth drivers in FY25/26E.** We believe the recent stock price correction is mainly due to profit taking. We lift FY25/26E EPS by 12%/10% for stronger AirPods ramp and general/AI server momentum. Trading at 14.3x/9.3x FY24/25 P/E, we think the valuation remains attractive. Maintain BUY with new TP of HK\$4.24 based on a rolled-over 13x FY25E P/E (vs prior 11x P/E). Near-term catalysts include progress of AirPods shipment, auto M&A deals and AI server product updates.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	4,531	4,196	5,108	6,332	7,497
YoY growth (%)	0.9	(7.4)	21.8	24.0	18.4
Net profit (US\$ mn)	170.1	131.8	194.3	298.3	373.4
YoY growth (%)	24.5	(22.5)	47.4	53.5	25.2
EPS (Reported) (US\$ cents)	2.42	1.85	2.73	4.19	5.25
Consensus EPS (US\$)	N/A	N/A	2.86	3.90	5.00
P/E (x)	16.1	21.1	14.3	9.3	7.4
P/B (x)	1.1	1.1	1.0	0.9	0.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	7.2	5.5	7.7	10.7	12.0
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$4.24**
 (Previous TP) HK\$2.40
Up/Downside **39.1%**
Current Price **HK\$3.05**

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Stock Data

Mkt Cap (HK\$ mn) 22,164.4
 Avg 3 mths t/o (HK\$ mn) 88.9
 52w High/Low (HK\$) 3.66/0.90
 Total Issued Shares (mn) 7267.0

Source: FactSet

Shareholding Structure

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

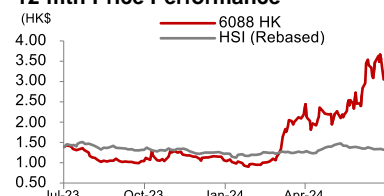
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	24.0%	29.9%
3-mth	39.3%	33.0%
6-mth	187.7%	166.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- FIT Hon Teng (6088 HK)-CMBI Corp Day takeaways: Multiple growth drivers in AI server, AI PC/phone and AirPods in FY24/25E-26th Jun 2024 ([link](#))
- FIT Hon Teng (6088 HK)-1Q24 in line; Positive on AI server/networking and AirPods ramp-up in 2H24E-13th May 2024 ([link](#))
- FIT Hon Teng (6088 HK)-Recent sell-off looks overdone; AirPods production in Vietnam on track in 1H24E- 12th Apr 2024 ([link](#))
- FIT Hon Teng (6088 HK) - NDR takeaway: Opportunities in US\$ 1.7bn server connector/cable market; Lift TP to HK\$ 2.42 - 26th Mar 2024 ([link](#))

1H24 results review

Figure 1: P&L forecast

US\$ mn	FY21	FY22	1H23	2H23	FY23	1H24E
Revenue	4,490	4,531	1,784	2,411	4,196	2,005
...YoY	4.1%	0.9%	-15.1%	-0.7%	-7.4%	12.4%
Cost of sales	(3,817)	(3,763)	(1,501)	(1,887)	(3,388)	(1,598)
Gross profit	673	768	283	524	807	407
GPM (%)	15%	17%	16%	22%	19%	20%
...YoY	16.1%	14.1%	-19.3%	25.7%	5.1%	43.8%
SG&A	(266)	(223)	(117)	(178)	(295)	(178)
...% of rev	-5.9%	-4.9%	-6.6%	-7.4%	-7.0%	-8.9%
R&D	(301)	(296)	(139)	(168)	(308)	(160)
...% of rev	-6.7%	-6.5%	-7.8%	-7.0%	-7.3%	-8.0%
Operating profit	177	307	48	217	265	92
OPM (%)	3.9%	6.8%	2.7%	9.0%	6.3%	4.6%
...YoY	41.2%	74.0%	-59.8%	16.0%	-13.7%	90.9%
Net profit	137	169	(9)	140	131	33
NPM (%)	3.1%	3.7%	-0.5%	5.8%	3.1%	1.7%
...YoY	221.7%	23.2%	-110.5%	70.4%	-22.5%	270.9%

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 2: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,108	6,332	7,497	4,715	5,412	6,233	8%	17%	20%
Gross profit	1,047	1,307	1,565	984	1,140	1,349	6%	15%	16%
Operating profit	343	481	579	349	434	529	-2%	11%	9%
Net profit	194	297	372	199	265	339	-3%	12%	10%
EPS (USD cents)	2.73	4.19	5.25	2.81	3.73	4.78	-3%	12%	10%
Gross margin	20.5%	20.6%	20.9%	20.9%	21.1%	21.6%	-0.4 ppt	-0.4 ppt	-0.8 ppt
Operating margin	6.7%	7.6%	7.7%	7.4%	8.0%	8.5%	-0.7 ppt	-0.4 ppt	-0.8 ppt
Net margin	3.8%	4.7%	5.0%	4.2%	4.9%	5.4%	-0.4 ppt	-0.2 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

(US\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,108	6,332	7,497	4,664	5,222	5,749	10%	21%	30%
Gross profit	1,047	1,307	1,565	946	1,070	1,204	11%	22%	30%
Operating profit	343	481	579	323	426	492	6%	13%	18%
Net profit	194	297	372	199	253	357	-3%	18%	4%
EPS (USD cents)	2.73	4.19	5.25	2.86	3.90	5.00	-5%	8%	5%
Gross margin	20.5%	20.6%	20.9%	20.3%	20.5%	20.9%	0.2 ppt	0.2 ppt	-0.1 ppt
Operating margin	6.7%	7.6%	7.7%	6.9%	8.2%	8.6%	-0.2 ppt	-0.6 ppt	-0.8 ppt
Net Margin	3.8%	4.7%	5.0%	4.3%	4.8%	6.2%	-0.5 ppt	-0.1 ppt	-1.2 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

US\$ 000	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Computing	819,708	773,285	403,929	423,486	827,415	893,608	965,097
...YoY	2%	-6%	7%	7%	7%	8%	8%
Smartphones	1,261,047	1,044,335	404,930	587,188	992,118	1,041,724	1,093,810
...YoY	-3%	-17%	-9%	-2%	-5%	5%	5%
Networking	753,854	424,793	239,330	436,091	675,421	912,965	1,210,940
...YoY	-14%	-44%	9%	112%	59%	35%	33%
General server (CPU, DDR5)	-	382,314	-	-	420,545	454,189	476,898
AI server (MCIO, MXIO, cables)	-	42,479	-	-	254,876	458,776	734,042
EV Mobility	152,814	305,098	179,924	361,911	541,834	661,082	812,123
...YoY	10%	100%	151%	55%	78%	22%	23%
EV business	152,814	137,553	73,793	67,886	141,680	148,764	156,202
Prettl SWH	-	167,545	106,130	294,024	400,155	512,318	655,921
System Products	1,335,580	1,415,280	663,072	1,128,972	1,792,044	2,529,346	3,107,164
...YoY	20%	6%	15%	35%	27%	41%	23%
Others	207,600	232,759	113,997	165,314	279,311	293,276	307,940
...YoY	-17%	12%	25%	17%	20%	5%	5%
Total	4,530,603	4,195,550	2,005,181	3,102,962	5,108,143	6,332,002	7,497,074
...YoY	0.9%	-7.4%	12.4%	28.7%	21.8%	24.0%	18.4%

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

US\$ mn	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	4,531	4,196	2,005	3,103	5,108	6,332	7,497
...YoY	0.9%	-7.4%	12.4%	28.7%	21.8%	24.0%	18.4%
Cost of sales	(3,763)	(3,388)	(1,598)	(2,463)	(4,061)	(5,025)	(5,932)
Gross profit	768	807	407	640	1,047	1,307	1,565
GPM (%)	17%	19%	20%	21%	20%	21%	21%
...YoY	14.1%	5.1%	43.8%	22.1%	29.7%	24.9%	19.7%
SG&A	(223)	(295)	(178)	(210)	(388)	(437)	(517)
...% of rev	-4.9%	-7.0%	-8.9%	-6.8%	-7.6%	-6.9%	-6.9%
R&D	(296)	(308)	(160)	(235)	(396)	(459)	(544)
...% of rev	-6.5%	-7.3%	-8.0%	-7.6%	-7.8%	-7.3%	-7.3%
Operating profit	307	265	92	250	343	481	579
OPM (%)	6.8%	6.3%	4.6%	8.1%	6.7%	7.6%	7.7%
...YoY	74.0%	-13.7%	90.9%	15.5%	29.3%	40.4%	20.4%
Net profit	169	131	33	160	194	297	372
NPM (%)	3.7%	3.1%	1.7%	5.2%	3.8%	4.7%	5.0%
...YoY	23.2%	-22.5%	270.9%	14.2%	47.5%	53.5%	25.2%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$4.24

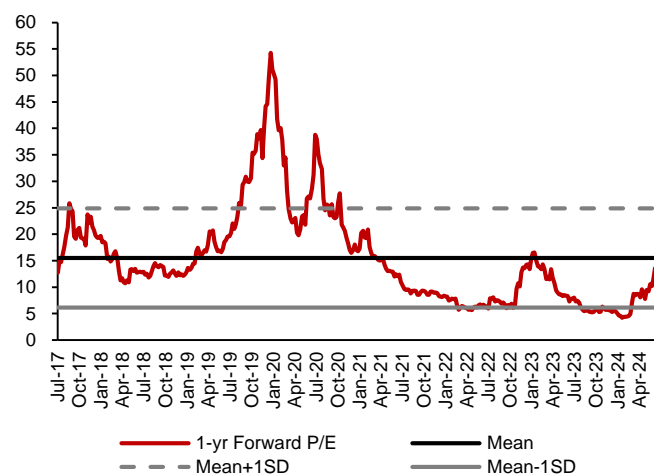
We lift our TP to HK\$4.24 based on a rolled-over 13x FY25E P/E (vs prior 11x P/E), for a multiple-product cycle and higher earnings visibility. Trading at 14.3x/9.3x FY24/25E P/E, we think the stock's risk-reward is attractive. Near-term catalysts include progress of AirPods shipment, auto M&A deals and AI server product updates.

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 (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Global connectors												
TE	TEL US	NR	45,760	149.43	NA	NA	19.9	18.0	3.6	3.5	18.9	19.4
Amphenol	APH US	NR	81,694	68.01	NA	NA	39.5	34.5	8.6	7.3	23.9	23.7
Fabrinet	FN US	NR	8,651	239.33	NA	NA	27.5	25.5	5.0	4.3	18.2	17.9
Aviat	6807 JP	NR	1,123	2571.00	NA	NA	16.9	14.2	1.2	1.3	7.5	9.5
Hirose	6806 JP	NR	4,021	18130.00	NA	NA	23.5	21.6	1.7	1.7	7.4	7.6
Luxshare	002475 CH	Buy	39,010	39.37	46.6	18%	20.3	16.4	3.3	2.8	16.4	16.9
Foxconn	2354 TT	NR	3,119	71.60	NA	NA	24.9	24.4	0.6	0.6	3.8	3.8
Hon Hai	2317 TT	NR	96,686	226.50	NA	NA	20.1	15.5	1.9	1.8	9.5	11.2
Average							24.1	21.2	3.3	2.9	13.2	13.8
China technology												
FIT Hon Teng	6088 HK	Buy	2,828	3.05	4.24	39%	14.3	9.3	1.0	0.9	7.7	10.7
AAC Tech	2018 HK	Hold	4,718	30.75	22.4*	-27%	24.0	19.3	1.4	1.3	5.8	6.9
Sunny Optical	2382 HK	Hold	6,041	43.15	47.3	10%	31.2	23.0	1.8	1.7	5.7	7.4
Tongda	698 HK	Buy	107	0.09	0.1	63%	3.7	3.0	0.1	0.1	3.1	3.8
BYDE	285 HK	Buy	9,880	34.50	45.2	32%	12.9	9.5	3.6	2.9	28.4	30.3
Q tech	1478 HK	Buy	581	3.81	3.9	3%	10.4	7.8	0.8	0.7	7.6	9.4
TK Group	2283 HK	Buy	187	1.75	2.8	59%	5.1	4.4	0.8	0.7	15.3	16.3
YOFC	6869 HK	NR	1,618	7.71	NA	NA	6.9	5.6	0.5	0.4	7.0	7.9
Cowell	1415 HK	NR	2,477	22.75	NA	NA	24.3	13.9	4.8	3.6	21.8	28.3
Average							14.7	10.8	1.6	1.4	11.3	13.3

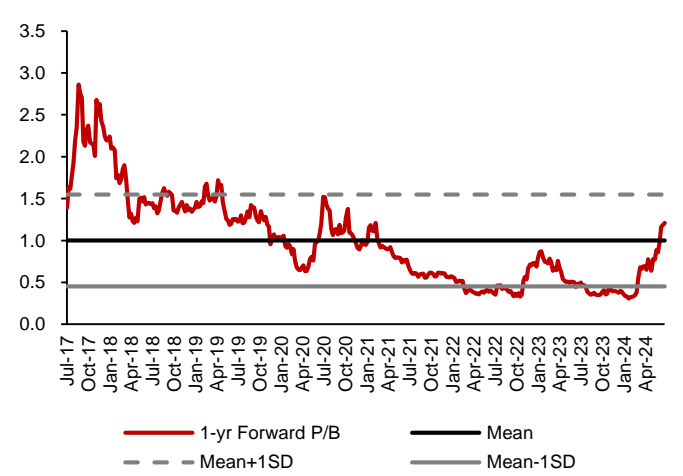
Source: Bloomberg, CMBIGM. *TP under review.

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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	4,490	4,531	4,196	5,108	6,332	7,497
Cost of goods sold	(3,817)	(3,763)	(3,388)	(4,061)	(5,025)	(5,932)
Gross profit	673	768	807	1,047	1,307	1,565
Selling expense	(105)	(93)	(105)	(148)	(158)	(187)
Admin expense	(161)	(130)	(191)	(240)	(279)	(330)
R&D expense	(301)	(296)	(308)	(396)	(459)	(544)
Others	70	58	61	80	70	75
Operating profit	177	307	265	343	481	579
Share of (losses)/profits of associates/JV	(8)	(46)	(50)	(45)	(45)	(45)
Interest expense	(2)	(14)	(33)	(33)	(30)	(26)
Pre-tax profit	167	248	182	265	406	509
Income tax	(31)	(78)	(50)	(70)	(108)	(135)
Minority interest	(1)	1	1	1	1	1
Net profit	137	170	132	194	298	373

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	3,034	2,764	3,112	3,077	3,748	4,483
Cash & equivalents	769	914	1,316	862	1,098	1,387
Account receivables	1,033	720	807	1,052	1,253	1,476
Inventories	982	967	802	976	1,210	1,433
ST bank deposits	98	66	4	4	4	4
Non-current assets	1,973	1,783	1,982	2,498	2,426	2,317
PP&E	823	753	900	1,416	1,344	1,235
Deferred income tax	133	131	126	126	126	126
Investment in JVs & assos	172	123	73	73	73	73
Intangibles	634	601	700	700	700	700
Other non-current assets	211	175	182	182	182	182
Total assets	5,007	4,547	5,094	5,575	6,174	6,799
Current liabilities	1,937	1,539	2,563	2,850	3,151	3,403
Short-term borrowings	690	453	1,383	1,383	1,383	1,383
Account payables	1,138	971	1,095	1,381	1,682	1,934
Tax payable	94	98	70	70	70	70
Other current liabilities	15	18	17	17	17	17
Non-current liabilities	674	661	93	93	93	93
Long-term borrowings	576	575	0	0	0	0
Obligations under finance leases	46	43	41	41	41	41
Other non-current liabilities	52	43	52	52	52	52
Total liabilities	2,611	2,200	2,656	2,943	3,244	3,496
Share capital	139	142	142	142	142	142
Other reserves	2,348	2,295	2,384	2,579	2,877	3,250
Total shareholders equity	2,396	2,347	2,437	2,632	2,930	3,303
Minority interest	1	2	3	3	3	3
Total equity and liabilities	5,007	4,547	5,094	5,575	6,174	6,799

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	167	248	182	265	406	509
Depreciation & amortization	251	232	220	434	472	509
Tax paid	(91)	(79)	(75)	(70)	(108)	(135)
Change in working capital	(257)	93	146	(133)	(134)	(194)
Others	15	63	101	0	0	0
Net cash from operations	85	556	574	496	636	689
Investing						
Capital expenditure	(216)	(113)	(243)	(950)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(4)	47	(167)	0	0	0
Net cash from investing	(220)	(66)	(410)	(950)	(400)	(400)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(1)	(2)	(1)	0	0	0
Others	121	(268)	250	0	0	0
Net cash from financing	120	(270)	249	0	0	0
Net change in cash						
Cash at the beginning of the year	766	769	914	1,316	862	1,098
Exchange difference	19	(75)	(10)	0	0	0
Cash at the end of the year	769	914	1,316	862	1,098	1,387
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.1%	0.9%	(7.4%)	21.8%	24.0%	18.4%
Gross profit	16.1%	14.1%	5.1%	29.7%	24.9%	19.7%
Operating profit	41.2%	74.0%	(13.7%)	29.3%	40.4%	20.4%
Net profit	219.3%	24.5%	(22.5%)	47.4%	53.5%	25.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.0%	16.9%	19.2%	20.5%	20.6%	20.9%
Operating margin	3.9%	6.8%	6.3%	6.7%	7.6%	7.7%
Return on equity (ROE)	6.0%	7.2%	5.5%	7.7%	10.7%	12.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	na	na	0.0	0.0	0.0	na
Current ratio (x)	1.6	1.8	1.2	1.1	1.2	1.3
Receivable turnover days	84.0	58.0	70.2	75.2	72.2	71.9
Inventory turnover days	93.9	93.8	86.4	87.7	87.9	88.2
Payable turnover days	108.8	94.2	117.9	124.1	122.2	119.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	19.2	16.1	21.1	14.3	9.3	7.4
P/B	1.1	1.1	1.1	1.0	0.9	0.8
Div yield (%)	114.7	0.0	0.0	0.0	0.0	0.0

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

Disclosures & Disclaimers

Analyst Certification

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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