

FIT Hon Teng (6088 HK)

2Q24 in-line; Upbeat guidance on power busbar and liquid cooling order wins

FIT Hon Teng posted a strong set of 2Q24 results, in-line with prior positive profit alert. Following our NDR call with mgmt., we are constructive on rapid expansion of AI server product portfolio: 1) power busbar and liquid cooling CDU products certified by customers (1-3% of FY24E sales), 2) sampling of backplane connector solutions undergoing customer evaluation. Mgmt. raised FY24E guidance for networking business revenue to high double-digit YoY (vs prior +5-15% YoY), partially offset by weaker system products (flattish vs prior low-double YoY), while lifted FY24E GPM guidance by 10-20 bps to 20.1-20.2% and maintained the OPM target. We adjusted FY24-26E EPS to reflect higher GPM offset by higher opex for new products. Reiterate BUY with new TP of HK\$ 4.25 based on same 13x FY25E P/E. Catalysts include AirPods shipment and AI server product updates.

■ **2Q24 strong earnings driven by networking biz and Voltaira.** FIT's 2Q24 revenue of US\$ 1,102mn (+20% YoY) and net profit of US\$ 22.3mn (vs US\$0.35mn in 2Q23) were in-line with prior positive profit alert. Higher-ASP server products and better product mix led to a better GPM of 20.4% (vs 16.0% in 2Q23). By segment, EV segment jumped +231% YoY due to Voltaira merge, while networking segment grew 29% YoY on booming AI demand. Smartphone segment delivered better-than-expected results due to key customer's shipment improvements with sales strategy. 2Q OPEX ratio lowered to 16.3% (vs. 17.8% in 1Q24) due to higher efficiency, FIT maintained OPEX ratio target of below 15-16%/13% for FY24/25E.

■ **AI server update: order wins of new power busbar and liquid cooling CDU and backplane connectors sample under customer evaluation.** During the earnings call, mgmt. highlighted new power busbar and liquid cooling CDU products have passed customer certifications, which should contribute to 1-3% of FY24E sales, and GB200 backplane connectors are currently sampling with customers. Mgmt. lifted FY24E networking business revenue guidance to high double-digit YoY growth (from +5-15% YoY). Overall, we expect FIT's revenue/net profit to rebound 12%/42% YoY in FY24E.

■ **Our FY25-26E EPS are 13-23% above consensus; Reiterate BUY.** Following recent correction on potential delay of Blackwell series, the stock now trades at 11.2x/6.9x FY24/25E P/E, which is attractive vs 42%/63% YoY EPS growth in FY24/25E. Reiterate BUY with new TP of HK\$ 4.25.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	4,531	4,196	4,677	6,117	7,347
YoY growth (%)	0.9	(7.4)	11.5	30.8	20.1
Net profit (US\$ mn)	170.1	129.6	183.5	298.7	384.9
YoY growth (%)	24.5	(23.8)	41.6	62.8	28.9
EPS (Reported) (US\$ cents)	2.42	1.82	2.58	4.20	5.42
Consensus EPS (US\$)	N/A	N/A	2.68	3.72	4.42
P/E (x)	12.0	15.9	11.2	6.9	5.4
P/B (x)	0.8	0.8	0.8	0.7	0.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	7.2	5.4	7.3	10.8	12.4
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$4.25**

(Previous TP) **HK\$4.24**

Up/Downside **88.1%**

Current Price **HK\$2.26**

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Stock Data

Mkt Cap (HK\$ mn)	16,423.4
Avg 3 mths t/o (HK\$ mn)	126.1
52w High/Low (HK\$)	3.73/0.90
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

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

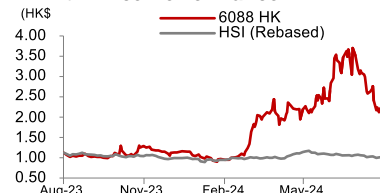
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-35.8%	-31.6%
3-mth	3.2%	14.9%
6-mth	133.0%	113.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1. FIT Hon Teng (6088 HK)-Positive on acquisition of Auto-kabel Group-12th Jul 2024 ([link](#))
2. FIT Hon Teng (6088 HK)-Share pressure overdone; Raise estimates for stronger AirPods/AI server upside-9th Jul 2024 ([link](#))
3. 2. 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](#))
4. 3. FIT Hon Teng (6088 HK)-1Q24 in line; Positive on AI server/networking and AirPods ramp-up in 2H24E-13th May 2024 ([link](#))

2Q24 Results review

Figure 1: 2Q24 review

(US\$ 000)	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24
Smartphones	230,000	215,883	305,000	293,452	1,044,335	202,000	214,000
...YoY	-20%	-34%	-24%	19%	-17%	-12%	-1%
Networking	105,000	113,936	97,000	108,857	424,793	114,000	146,729
...YoY	-44%	-34%	-57%	-35%	-44%	9%	29%
Computing	170,000	207,342	211,000	184,943	773,285	180,000	198,226
...YoY	-19%	3%	1%	-7%	-6%	6%	-4%
EV Mobility	38,000	33,644	133,000	100,454	305,098	116,000	111,270
...YoY	-12%	16%	241%	140%	100%	205%	231%
Systems Products	273,000	305,893	376,000	460,387	1,415,280	296,000	375,576
...YoY	0%	9%	7%	6%	6%	8%	23%
Others	46,000	45,382	43,000	98,377	232,759	55,000	56,000
...YoY	-10%	18%	-16%	47%	12%	20%	23%
Revenue	862,000	922,080	1,165,000	1,246,470	4,195,550	963,000	1,101,801
...YoY	-18%	-12%	-9%	8%	-7%	12%	19%
Net profit	(9,297)	345	54,906	74,063	128,969	10,201	22,323
NPM (%)	-1.1%	0.0%	4.7%	5.9%	3%	1.1%	2.0%
...YoY	-130%	-99%	10%	116%	-24%	N/A	6370%

Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown

US\$ 000	FY22	FY23	1H24	2H24E	FY24E	FY25E
Computing	819,708	773,285	378,226	472,388	850,614	952,687
...YoY	2%	-6%	0%	19%	10%	12%
Smartphones	1,261,047	1,044,335	415,228	524,674	939,902	996,296
...YoY	-3%	-17%	-7%	-12%	-10%	6%
Networking	753,854	424,793	260,729	414,692	675,421	938,453
...YoY	-14%	-44%	19%	101%	59%	39%
Traditional server		382,314			420,545	454,189
AI server		42,479			254,876	484,264
EV Mobility	152,814	305,098	227,270	314,564	541,834	662,498
...YoY	10%	100%	217%	35%	78%	22%
EV business	152,814	137,553	73,793	67,886	141,680	150,180
Prettl SWH	-	167,545	153,477	246,678	400,155	512,318
System Products	1,335,580	1,415,280	671,576	718,454	1,390,030	2,245,583
...YoY	20%	6%	16%	-14%	-2%	62%
Others	207,600	232,759	113,731	165,580	279,311	321,207
...YoY	-17%	12%	24%	17%	20%	15%
Total	4,530,603	4,195,550	2,066,760	2,610,351	4,677,111	6,116,724
...YoY	0.9%	-7.4%	15.8%	8.2%	11.5%	30.8%

Source: Company data, CMBIGM estimates

Figure 3: P&L forecast

US\$ mn	FY22	FY23	1H24	2H24E	FY24E	FY25E
Revenue	4,531	4,196	2,067	2,610	4,677	6,117
...YoY	0.9%	-7.4%	15.8%	8.2%	11.5%	30.8%
Cost of sales	-3,763	-3,388	-1,646	-2,066	-3,712	-4,848
Gross profit	768	807	421	544	965	1,268
GPM (%)	17%	19%	20%	21%	21%	21%
...YoY	14.1%	5.1%	48.8%	3.9%	19.6%	31.4%
SG&A	-223	-295	-180	-166	-346	-422
...% of rev	-4.9%	-7.0%	-8.7%	-6.3%	-7.4%	-6.9%
R&D	-296	-308	-172	-191	-362	-447
...% of rev	-6.5%	-7.3%	-8.3%	-7.3%	-7.8%	-7.3%
Operating profit	307	263	93	235	328	473
OPM (%)	6.8%	6.3%	4.5%	9.0%	7.0%	7.7%
...YoY	74.0%	-14.4%	97.5%	8.8%	24.8%	44.2%
Net profit	169	129	33	150	183	298
NPM (%)	3.7%	3.1%	1.6%	5.8%	3.9%	4.9%
...YoY	23.2%	-23.9%	263.3%	9.0%	41.8%	62.8%

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 4: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,677	6,117	7,347	5,108	6,332	7,497	-8%	-3%	-2%
Gross profit	965	1,268	1,546	1,047	1,307	1,565	-8%	-3%	-1%
Operating profit	328	473	584	343	481	579	-4%	-2%	1%
Net profit	183	298	384	194	297	372	-6%	0%	3%
EPS (USD cents)	2.58	4.20	5.42	2.73	4.19	5.25	-5%	0%	3%
Gross margin	20.6%	20.7%	21.0%	20.5%	20.6%	20.9%	0.1 ppt	0.1 ppt	0.1 ppt
Operating margin	7.0%	7.7%	7.9%	6.7%	7.6%	7.7%	0.3 ppt	0.1 ppt	0.2 ppt
Net Margin	3.9%	4.9%	5.2%	3.8%	4.7%	5.0%	0.1 ppt	0.2 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

(US\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,677	6,117	7,347	4,755	5,573	6,106	-2%	10%	20%
Gross profit	965	1,268	1,546	961	1,136	1,252	1%	12%	23%
Operating profit	328	473	584	303	411	453	8%	15%	29%
Net profit	183	298	384	187	272	316	-2%	9%	22%
EPS (USD cents)	2.58	4.20	5.42	2.68	3.72	4.42	-4%	13%	23%
Gross margin	20.6%	20.7%	21.0%	20.2%	20.4%	20.5%	0.4 ppt	0.4 ppt	0.5 ppt
Operating margin	7.0%	7.7%	7.9%	6.4%	7.4%	7.4%	0.6 ppt	0.4 ppt	0.5 ppt
Net Margin	3.9%	4.9%	5.2%	3.9%	4.9%	5.2%	0 ppt	0 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$4.25

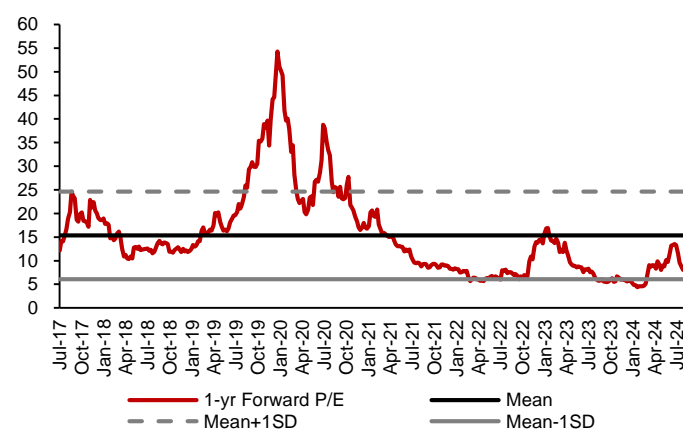
Our new 12m TP of HK\$ 4.25 is based on same 13x FY25E P/E, given accelerated growth on “3+3 Strategy” and profitability recovery. Trading at 11.2x/6.9x FY24/25E P/E, we think risk-reward is attractive. Upcoming catalysts include continued revenue upside from auto business consolidation, AirPods share gains, 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 (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Global Connectors												
TE	TEL US	NR	43,977	144.70	NA	NA	19.2	17.6	3.5	3.4	19.0	19.1
Amphenol	APH US	NR	75,930	63.05	NA	NA	35.6	30.5	7.9	6.9	24.3	24.7
Fabrinet	FN US	NR	7,493	207.31	NA	NA	23.8	22.1	4.4	3.8	18.2	17.9
Aviat	6807 JP	NR	1,089	2277.00	NA	NA	15.0	12.2	1.1	1.1	7.5	9.8
Hirose	6806 JP	NR	4,252	17515.00	NA	NA	22.7	19.9	1.7	1.6	7.4	7.9
Luxshare	002475 CH	BUY	37,264	37.00	46.6	26%	19.1	15.4	3.1	2.6	16.4	16.9
Foxconn	2354 TT	NR	2,729	62.60	NA	NA	21.7	21.3	0.6	0.6	3.8	3.8
Hon Hai	2317 TT	NR	77,328	181.00	NA	NA	16.0	12.1	1.5	1.4	9.6	11.6
Average							21.6	18.9	3.0	2.7	13.3	14.0
China technology												
FIT Hon Teng	6088 HK	BUY	2,115	2.26	4.25	88%	11.2	6.9	0.8	0.7	7.3	10.8
AAC Tech	2018 HK	HOLD	4,170	27.10	22.4	-17%	21.1	17.0	1.2	1.2	5.8	6.9
Sunny Optical	2382 HK	BUY	6,234	44.35	67.9	53%	17.7	16.0	1.8	1.8	10.4	10.9
Tongda	698 HK	BUY	98	0.08	0.1	69%	4.9	3.5	0.1	0.1	2.2	2.9
BYDE	285 HK	BUY	8,491	29.35	45.3	54%	11.7	8.6	3.2	2.5	27.0	29.2
Q tech	1478 HK	BUY	722	4.75	6.4	35%	14.2	9.5	1.0	0.9	6.9	9.6
TK Group	2283 HK	BUY	195	1.82	2.8	53%	5.4	4.6	0.8	0.7	15.3	16.3
YOFC	6869 HK	NR	1,728	8.13	NA	NA	7.2	5.9	0.5	0.4	7.0	7.9
Cowell	1415 HK	NR	2,364	21.45	NA	NA	23.1	13.2	4.6	3.4	21.8	28.3
Average							12.9	9.5	1.6	1.3	11.5	13.6

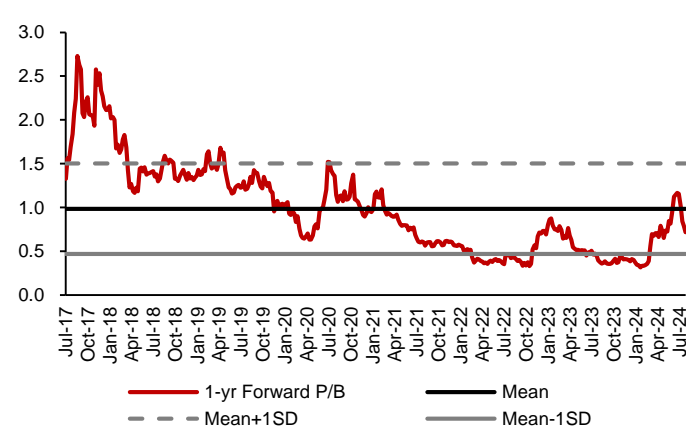
Source: Bloomberg, CMBIGM. *TP under review.

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	4,677	6,117	7,347
Cost of goods sold	(3,817)	(3,763)	(3,388)	(3,712)	(4,848)	(5,800)
Gross profit	673	768	807	965	1,268	1,546
Selling expense	(105)	(93)	(105)	(131)	(153)	(184)
Admin expense	(161)	(130)	(191)	(215)	(269)	(316)
R&D expense	(301)	(296)	(308)	(362)	(447)	(536)
Others	70	58	61	71	73	73
Operating profit	177	307	263	328	473	584
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	179	250	398	513
Income tax	(31)	(78)	(50)	(66)	(100)	(128)
Minority interest	(1)	1	1	1	1	1
Net profit	137	170	130	184	299	385
BALANCE SHEET						
YE 31 Dec (US\$ mn)						
Current assets	3,034	2,764	3,112	2,853	3,843	4,298
Cash & equivalents	769	914	1,316	877	1,156	1,364
Account receivables	1,033	720	807	895	1,331	1,343
Inventories	982	967	802	894	1,169	1,404
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	5,351	6,269	6,615
Current liabilities	1,937	1,539	2,563	2,637	3,257	3,217
Short-term borrowings	690	453	1,383	1,383	1,383	1,383
Account payables	1,138	971	1,095	1,168	1,788	1,748
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	2,730	3,349	3,310
Share capital	139	142	142	142	142	142
Other reserves	2,348	2,295	2,384	2,568	2,867	3,251
Total shareholders equity	2,396	2,347	2,437	2,621	2,920	3,305
Minority interest	1	2	3	3	3	3
Total equity and liabilities	5,007	4,547	5,094	5,351	6,269	6,615

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	167	248	179	250	398	513
Depreciation & amortization	251	232	220	434	472	509
Tax paid	(91)	(79)	(75)	(66)	(100)	(128)
Change in working capital	(257)	93	146	(107)	(92)	(286)
Others	15	63	103	0	0	0
Net cash from operations	85	556	574	511	679	608
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	877	1,156
Exchange difference	19	(75)	(10)	0	0	0
Cash at the end of the year	769	914	1,316	877	1,156	1,364
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	4.1%	0.9%	(7.4%)	11.5%	30.8%	20.1%
Gross profit	16.1%	14.1%	5.1%	19.6%	31.4%	21.9%
Operating profit	41.2%	74.0%	(14.4%)	24.8%	44.2%	23.4%
Net profit	219.3%	24.5%	(23.8%)	41.6%	62.8%	28.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.0%	16.9%	19.2%	20.6%	20.7%	21.0%
Operating margin	3.9%	6.8%	6.3%	7.0%	7.7%	7.9%
Return on equity (ROE)	6.0%	7.2%	5.4%	7.3%	10.8%	12.4%
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	0.0
Current ratio (x)	1.6	1.8	1.2	1.1	1.2	1.3
Receivable turnover days	84.0	58.0	70.2	69.9	79.4	66.7
Inventory turnover days	93.9	93.8	86.4	87.9	88.0	88.3
Payable turnover days	108.8	94.2	117.9	114.9	134.6	110.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	14.2	12.0	15.9	11.2	6.9	5.4
P/B	0.8	0.8	0.8	0.8	0.7	0.6
Div yield (%)	154.4	0.0	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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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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