

# FIT Hon Teng (6088 HK)

## Corp Day Takeaways: “3+3 Strategy” to emerge as new growth driver

We spoke to FIT Hon Teng’s mgmt during our Technology Corporate Day, and mgmt. expected revenue recovery in 2H22E driven by production resumption in Kunshan, major clients’ product launches, and Belkin’s momentum. Mgmt maintained FY22E guidance of flattish revenue and gross margin given a slower 1H22E. Overall, we are positive on FIT’s “3+3 Strategy” (EV, 5G AIoT, Audio), and “3+3” segments will emerge as the major growth driver with revenue mix target of 31% in 2023 (vs 16% in 2021). We reduced FY22-24E EPS by 12-16% to reflect lower demand and margin due to recent lockdown. The stock now trades at distressed valuation of 7.0x/6.2x FY22E/23E P/E. Maintain BUY with new TP of HK\$1.55 based on same 10x FY22E P/E (1-sd below hist. avg).

- Full production resumption in Kunshan; Client product launches in 2H22E.** For 1H22, mgmt. guided flattish revenue in smartphone/computing segment and double-digit revenue growth in EV/final products segments. Kunshan plant has fully resumed production after lockdown from 6 April to 11 May, and mgmt. expected limited impact on 2Q22 revenue as inventory level is sufficient to support 2Q demand. Looking into 2H22, FIT believes stronger client order in 2H22E backed by peak season and new product launches (e.g. US client, Belkin TWS).
- “3+3 Strategy” to accelerate in 2023; EU’s new Type-C regulation to boost demand.** Mgmt. reiterated “3+3 Strategy” revenue mix target of 31% by 2023 (vs 16% in 2021) driven by rapid expansion into EV biz (charging, interconnect, display), 5G AIoT (socket, networking) and Audio (Beats, Belkin, SSI). In addition, we are positive on recent new EU rules to mandate USB Type-C charging for all phones, which we believe will drive demand for Type-C socket/cable and charging accessories. Overall, we estimate FY23/24E EPS growth of 13%/17% in FY23/24E.
- Attractive risk/reward; Maintain BUY with new TP of HK\$1.55.** We revised our FY22E EPS to reflect lower demand and margin due to 1H22 lockdown. Our new TP of HK\$1.55 is based on same 10x FY22E P/E (1-sd below 5-year hist. avg.). Trading at 7.0x/6.2x FY22E/23E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins.

### Earnings Summary

(YE 31 Dec)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	4,315	4,490	4,525	4,941	5,450
YoY growth (%)	(1.3)	4.1	0.8	9.2	10.3
Net income (US\$ mn)	43	138	135	152	178
EPS (US\$ cents)	0.64	2.04	1.99	2.25	2.64
YoY growth (%)	(82.2)	219.9	(2.2)	12.9	17.2
Consensus EPS (US\$ cents)	N/A	N/A	1.52	1.95	2.03
P/E (x)	21.8	6.8	7.0	6.2	5.3
P/B (x)	0.4	0.4	0.4	0.4	0.3
Yield (%)	1.0	3.2	3.2	3.6	4.2
ROE (%)	1.9	5.7	5.4	5.8	6.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

### BUY (Maintain)

Target Price	HK\$1.55
(Previous TP)	HK\$1.76)
Up/Downside	+44%
Current Price	HK\$1.08

### China Technology Sector

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### Stock Data

Mkt. Cap. (HK\$mn)	7,704
Avg. 3mths t/o (HK\$mn)	4.16
52W High/Low (HK\$)	2.19/ 0.86
Total Issued Shares (mn)	7,134

Source: Bloomberg

### Shareholding Structure

Foxconn Far East Ltd	76.61%
Lu Sung-Ching	3.98%

Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	1.9%	-3.8%
3-mth	16.3%	7.8%
6-mth	-32.3%	-24.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

## Earnings Revision

Figure 1: CMBIGM earnings revisions

(US\$ mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,525	4,941	5,450	4,601	5,068	5,590	-2%	-3%	-2%
Gross profit	680	761	850	710	801	888	-4%	-5%	-4%
Operating profit	164	183	213	185	218	245	-12%	-16%	-13%
Net profit	135	152	178	153	181	206	-12%	-16%	-13%
EPS (USD cents)	1.99	2.25	2.64	2.27	2.68	3.05	-12%	-16%	-13%
Gross margin	15.0%	15.4%	15.6%	15.4%	15.8%	15.9%	-0.4 ppt	-0.4 ppt	-0.3 ppt
Operating margin	3.6%	3.7%	3.9%	4.0%	4.3%	4.4%	-0.4 ppt	-0.6 ppt	-0.5 ppt
Net Margin	3.0%	3.1%	3.3%	3.3%	3.6%	3.7%	-0.4 ppt	-0.5 ppt	-0.4 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(US\$ mn)	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,525	4,941	5,450	4,551	4,764	5,033	-1%	4%	8%
Gross profit	680	761	850	689	740	784	-1%	3%	9%
Operating profit	164	183	213	153	174	206	7%	5%	3%
Net profit	135	152	178	115	139	154	17%	10%	16%
EPS (USD cents)	1.99	2.25	2.64	1.52	1.95	2.03	31%	15%	30%
Gross margin	15.0%	15.4%	15.6%	15.1%	15.5%	15.6%	-0.1 ppt	-0.1 ppt	0 ppt
Operating margin	3.6%	3.7%	3.9%	3.4%	3.7%	4.1%	0.3 ppt	0.1 ppt	-0.2 ppt
Net Margin	3.0%	3.1%	3.3%	2.5%	2.9%	3.1%	0.4 ppt	0.2 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

Figure 3: P&L forecast

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>4,372</b>	<b>4,315</b>	<b>4,490</b>	<b>4,525</b>	<b>4,941</b>	<b>5,450</b>
...YoY	9.2%	-1.3%	4.1%	0.8%	9.2%	10.3%
Cost of sales	(3,618)	(3,735)	(3,817)	(3,846)	(4,180)	(4,600)
<b>Gross profit</b>	<b>754</b>	<b>580</b>	<b>673</b>	<b>680</b>	<b>761</b>	<b>850</b>
GPM (%)	17%	13%	15%	15%	15%	16%
...YoY	6.5%	-23.1%	16.1%	1.0%	12.0%	11.7%
SG&A	(269)	(230)	(266)	(258)	(287)	(316)
...% of rev	-6.2%	-5.3%	-5.9%	-5.7%	-5.8%	-5.8%
R&D	(250)	(235)	(301)	(294)	(321)	(354)
...% of rev	-5.7%	-5.4%	-6.7%	-6.5%	-6.5%	-6.5%
<b>Operating profit</b>	<b>275</b>	<b>125</b>	<b>177</b>	<b>164</b>	<b>183</b>	<b>213</b>
OPM (%)	6.3%	2.9%	3.9%	3.6%	3.7%	3.9%
...YoY	-10.8%	-54.7%	41.6%	-7.3%	11.8%	16.2%
<b>Net profit</b>	<b>235</b>	<b>43</b>	<b>138</b>	<b>135</b>	<b>152</b>	<b>178</b>
NPM (%)	5.4%	1.0%	3.1%	3.0%	3.1%	3.3%
...YoY	0.6%	-81.9%	223.8%	-2.2%	12.9%	17.2%

Source: Company data, CMBIGM estimates

**Figure 4: Revenue breakdown**

US\$ mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Computers and consumer electronics</b>	<b>795</b>	<b>875</b>	<b>976</b>	<b>976</b>	<b>1,025</b>	<b>1,076</b>
...YoY	-15%	10%	12%	0%	5%	5%
<b>Mobile and wireless devices</b>	<b>1,739</b>	<b>1,653</b>	<b>1,392</b>	<b>1,406</b>	<b>1,476</b>	<b>1,550</b>
...YoY	2%	-5%	-16%	1%	5%	5%
<b>Communications infrastructure</b>	<b>885</b>	<b>802</b>	<b>887</b>	<b>905</b>	<b>996</b>	<b>1,125</b>
...YoY	-6%	-9%	11%	2%	10%	13%
<b>Automotive, industrial and medical</b>	<b>129</b>	<b>145</b>	<b>176</b>	<b>203</b>	<b>253</b>	<b>329</b>
...YoY	62%	12%	22%	15%	25%	30%
<b>Connected home</b>	<b>266</b>	<b>298</b>	<b>196</b>	-	-	-
...YoY	622%	12%	-34%	0%	0%	0%
<b>Smart accessories</b>	<b>559</b>	<b>542</b>	<b>863</b>	<b>1,036</b>	<b>1,191</b>	<b>1,370</b>
...YoY	84%	-3%	59%	20%	15%	15%
<b>Total</b>	<b>4,372</b>	<b>4,315</b>	<b>4,490</b>	<b>4,525</b>	<b>4,941</b>	<b>5,450</b>
...YoY	<b>9.2%</b>	<b>-1.3%</b>	<b>4.1%</b>	<b>0.8%</b>	<b>9.2%</b>	<b>10.3%</b>

Source: Company data, CMBIGM estimates

## Valuation

### Maintain BUY with TP of HK1.55

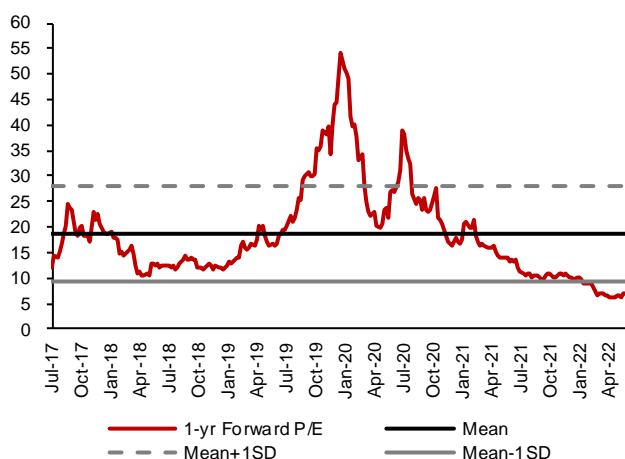
Our new 12m TP of HK\$ 1.55 is based on same 10x FY22E P/E). Trading at 7.0x FY22E P/E, we think risk-reward is extremely attractive. Upcoming catalysts include new products from Belkin/EV, M&A and improving margins

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Global Connectors</b>												
TE	TEL US	NR	38,511	119.54	NA	NA	16.7	15.3	3.5	3.2	21.8	22.5
Amphenol	APH US	NR	39,238	65.70	NA	NA	23.4	21.7	5.9	5.1	26.7	24.3
Fabrinet	FN US	NR	2,925	79.51	NA	NA	13.3	12.2	2.3	2.0	18.7	17.3
Aviat	6807 JP	NR	1,454	2119.00	NA	NA	14.2	12.2	1.3	1.2	9.2	9.6
Hirose	6806 JP	NR	4,886	17650.00	NA	NA	21.7	19.8	1.9	1.8	8.8	9.1
Luxshare	002475 CH	Buy	34,899	33.08	*74.2	NA	23.5	17.8	5.1	4.0	22.2	23.1
Cheng Uei	2392 TT	NR	583	33.80	NA	NA	-	-	-	-	-	-
Foxconn	2354 TT	NR	2,678	56.20	NA	NA	11.3	10.3	0.5	0.5	6.2	6.5
Hon Hai	2317 TT	NR	52,313	112.00	NA	NA	10.5	9.3	1.0	0.9	9.9	10.7
<b>Average</b>							<b>16.8</b>	<b>14.8</b>	<b>2.7</b>	<b>2.3</b>	<b>15.4</b>	<b>15.4</b>
<b>China technology</b>												
FIT Hon Teng	6088 HK	Buy	981	1.08	1.55	44%	7.0	6.2	0.4	0.4	5.4	5.8
AAC Tech	2018 HK	Hold	2,660	17.28	14.0	-19%	20.4	14.2	0.8	0.8	4.0	5.6
Sunny Optical	2382 HK	Hold	16,334	116.90	125.7	8%	22.4	18.8	4.6	3.8	20.4	20.3
Tongda	698 HK	Buy	184	0.15	0.2	48%	3.7	2.5	0.1	0.1	3.1	4.5
BYDE	285 HK	Hold	5,569	19.40	12.5	-36%	22.0	13.1	1.5	1.4	6.9	10.6
Q tech	1478 HK	Buy	816	5.41	8.6	59%	6.7	8.1	1.1	0.9	15.8	11.4
TK Group	2283 HK	Buy	224	2.11	3.4	60%	5.1	4.1	1.0	0.8	18.6	20.7
FIH	2038 HK	NR	1,056	1.04	NA	NA	18.9	12.0	0.5	0.5	2.7	4.0
Truly	732 HK	NR	960	2.29	NA	NA	5.0	4.1	-	-	12.2	13.4
YOFC	6869 HK	NR	2,264	11.66	NA	NA	8.1	7.3	0.7	0.7	9.1	9.7
Ju Teng	3336 HK	NR	234	1.53	NA	NA	7.7	5.3	0.3	0.3	3.5	5.0
Cowell	1415 HK	NR	788	7.41	NA	NA	10.6	7.9	1.9	1.6	20.3	23.2
<b>Average</b>							<b>11.5</b>	<b>8.6</b>	<b>1.2</b>	<b>1.0</b>	<b>10.3</b>	<b>11.2</b>

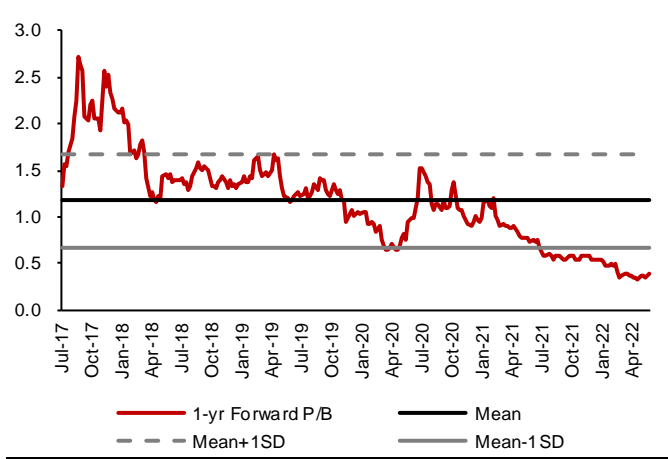
Source: Bloomberg, CMBIGM, \* TP under review

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E	YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	4,315	4,490	4,525	4,941	5,450	<b>Profit before taxation</b>	117	167	159	180	211
COGS	(3,735)	(3,817)	(3,846)	(4,180)	(4,600)	Depreciation	241	146	156	167	178
<b>Gross profit</b>	580	673	680	761	850	Change in working capital	(279)	(93)	48	(133)	(46)
Selling and marketing	(97)	(105)	(100)	(114)	(125)	Others	36	(135)	(23)	(28)	(34)
Administrative	(134)	(161)	(158)	(173)	(191)	<b>Net cash from operating</b>	<b>115</b>	<b>85</b>	<b>341</b>	<b>186</b>	<b>309</b>
R&D	(235)	(301)	(294)	(321)	(354)	Capex	(335)	(241)	(200)	(200)	(200)
Other gain/(loss)	11	70	36	30	33	Other	(21)	461	12	13	15
<b>Operating profit</b>	<b>125</b>	<b>177</b>	<b>164</b>	<b>183</b>	<b>213</b>	<b>Net cash from investing</b>	<b>(356)</b>	<b>220</b>	<b>(188)</b>	<b>(187)</b>	<b>(185)</b>
Financial cost	1	(2)	(1)	1	2	Net borrowings	-	86	(65)	30	35
Share associate's profit	(9)	(8)	(4)	(4)	(4)	Dividend paid	-	(30)	(30)	(33)	(39)
<b>Pre-tax profit</b>	<b>117</b>	<b>167</b>	<b>159</b>	<b>180</b>	<b>211</b>	Share issuing					
Tax	(74)	(31)	(24)	(27)	(32)	Other	71	65	(13)	(13)	(13)
Minority interest	0	(1)	1	1	1	<b>Net cash from financing</b>	<b>71</b>	<b>120</b>	<b>(107)</b>	<b>(16)</b>	<b>(17)</b>
<b>Net profit</b>	<b>43</b>	<b>138</b>	<b>135</b>	<b>152</b>	<b>178</b>	<b>Net change in cash</b>	<b>(169)</b>	<b>425</b>	<b>46</b>	<b>(17)</b>	<b>107</b>
						Cash at beginning of the year	892	766	769	815	799
						Exchange difference	43	-	-	-	-
						<b>Cash at the end of the year</b>	<b>766</b>	<b>769</b>	<b>815</b>	<b>799</b>	<b>906</b>

Balance sheet						Key ratios					
YE 31 Dec (US\$ mn)	FY20	FY21	FY22E	FY23E	FY24E	YE 31 Dec	FY20	FY21	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>2,848</b>	<b>3,034</b>	<b>2,941</b>	<b>3,338</b>	<b>3,450</b>	<b>Sales mix (%)</b>					
Cash & equivalents	766	769	815	799	906	Consumer electronics	20	22	22	21	20
Account receivables	872	1,033	886	1,209	1,102	Mobile devices	38	31	31	30	28
Inventories	944	982	990	1,081	1,192	Comm. infrastructure	19	20	20	20	21
Short-term bank deposits	126	98	98	98	98	Auto, industrial and medical	3	4	4	5	6
						Connected home	7	4	0	0	0
<b>Non-current assets</b>	<b>1,791</b>	<b>1,973</b>	<b>2,016</b>	<b>2,049</b>	<b>2,071</b>	Smart accessories	13	19	23	24	25
PPE	728	823	867	900	921						
Intangibles	709	634	634	634	634	<b>Growth (%)</b>					
Interests in associates	24	172	172	172	172	Revenue	(1.3)	4.1	0.8	9.2	10.3
Deferred income tax	135	133	133	133	133	Gross profit	(23.1)	16.1	1.0	12.0	11.7
Other non-current assets	195	211	211	211	211	Operating profit	(54.7)	41.6	(7.3)	11.8	16.2
<b>Total assets</b>	<b>4,639</b>	<b>5,007</b>	<b>4,957</b>	<b>5,387</b>	<b>5,521</b>	Net profit	(81.9)	223.8	(2.2)	12.9	17.2
<b>Current liabilities</b>	<b>1,790</b>	<b>1,937</b>	<b>1,782</b>	<b>2,092</b>	<b>2,086</b>	<b>Profit &amp; loss ratio (%)</b>					
ST borrowings	604	690	625	655	690	Gross margin	13.4	15.0	15.0	15.4	15.6
Account payables	1,032	1,138	1,048	1,328	1,286	Operating margin	2.9	3.9	3.6	3.7	3.9
Tax payable	129	94	94	94	94	Net profit margin	1.0	3.1	3.0	3.1	3.3
Other current liabilities	25.530	15.243	15.243	15.243	15.243						
<b>Non-current liabilities</b>	<b>659</b>	<b>674</b>	<b>674</b>	<b>674</b>	<b>674</b>	<b>Balance sheet ratio</b>					
Other payables	5	10	10	10	10	Net debt/total equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred tax liability	50	42	42	42	42	Current ratio (x)	1.6	1.6	1.7	1.6	1.7
<b>Total liabilities</b>	<b>2,449</b>	<b>2,611</b>	<b>2,456</b>	<b>2,766</b>	<b>2,760</b>	Receivable turnover days	74	84	71	89	74
Share capital	135	139	139	139	139	Inventory turnover days	92	94	94	94	95
Reserves	2,145	2,348	2,453	2,571	2,710	Payable turnover days	101	109	99	116	102
Non-controlling interests	3	1	2	3	4	<b>Profitability (%)</b>					
<b>Shareholders' equity</b>	<b>2,190</b>	<b>2,396</b>	<b>2,501</b>	<b>2,621</b>	<b>2,761</b>	ROE	1.9	5.7	5.4	5.8	6.5
<b>Total equity and liabilities</b>	<b>4,639</b>	<b>5,007</b>	<b>4,957</b>	<b>5,387</b>	<b>5,521</b>	ROA	0.9	2.7	2.7	2.8	3.2
						<b>Per share data (US\$ cents)</b>					
						EPS	0.64	2.04	1.99	2.25	2.64
						DPS	0.14	0.45	0.44	0.50	0.58

Source: Company data, CMBIGM estimates

# Disclosures & Disclaimers

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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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