

**FIH Mobile**  
2038 HK

Target (HKD): **5.00 → 5.20**

Upside: **20.9%**      27 May price (HKD): **4.30**

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell

## On track for a strong 2015

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- Management expects solid earnings growth for 2015
- Business growth on track; India market could provide long-term revenue upside
- Valuation looks undemanding to us; reiterate Buy (1) and raise TP to HKD5.20

### ■ What's new

We received a business update from FIH Mobile's (FIH) management. Its optimistic tone for 2015 reaffirms our confidence that it is on track to deliver strong earnings growth this year. We see its current valuation as attractive.

### ■ What's the impact

#### **Business on track for strong earnings growth in 2015.**

Despite providing no specific guidance, FIH seemed optimistic about 2015 and said it expects to see solid earnings growth this year with orders from China brands and an improving product mix as major business-growth drivers.

As discussed in [Good entry point for 2015](#), 7 Jan 2015, although we are cautious about smartphone demand in China due to high smartphone penetration, we see FIH holding a sweet spot in the market due to its robust customer profile (major customers include Xiaomi, Huawei, Oppo, etc., which should outperform other China brands, in our view) and favourable product-mix trend due to

the rising adoption of metal by China brands. In addition to Xiaomi (for which FIH has become a major metal casing vendor since 2H14), our market research shows that FIH has tapped into the metal-casing supply chain of other China brands such as Huawei and Oppo. We expect smartphone-model wins in 2015 and our market research shows these orders are on track. In total we forecast FIH's metal-casing revenue contribution to rise from mid-single digits in 2014 to mid-teens in 2015.

We expect its operating margin to improve to 5.3% in 2015 from 4.8% in 2014 and 2.6% in 2013 on a favourable product mix and rising operating efficiency. We also forecast FIH's net profit to grow by 46% YoY to reach USD247m.

#### **India: the next long-term business-growth driver.**

Management said it is talking to local governments in India and targets to set up new production sites there by end-2015. It said it sees good business opportunities in India due to the rapidly growing smartphone demand and the emerging trend of production in India, which has been driven by the import-tax increase (from 6% to 12.5%) on mobile handsets by the Indian government in February 2015. Our market research indicates that in addition to Xiaomi, FIH is talking to top-tier India smartphone brands for possible cooperation. We believe this could provide extra sales-growth drivers for FIH in coming years should there be any major order wins.

### ■ What we recommend

We do not change our 2015-16E earnings, and we introduce our 2017 forecasts. We reaffirm our Buy (1) rating on FIH and raise our 12-month target price to HKD5.20

(from HKD5.00), based on an unchanged 1.2x average 2015-16E PBR (previously 2015 PBR), a 10% discount to its past-6-year trading average of 1.3x. The stock is currently trading at 1.1x 2015E PBR. We continue to view its risk/reward as attractive, and suggest that investors accumulate prior to the expected solid earnings growth. Key risk to our call: worse-than-expected orders from FIH's main clients.

### ■ How we differ

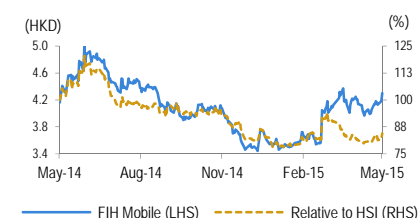
We are more positive than the market on FIH's 2014-16E margin expansion.

#### Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Revenue change	-	-	n.a.
Net profit change	-	-	n.a.
Core EPS (FD) change	-	-	n.a.

Source: Daiwa forecasts

#### Share price performance



12-month range	3.44-5.00
Market cap (USDbn)	4.19
3m avg daily turnover (USDm)	7.19
Shares outstanding (m)	7,554
Major shareholder	Hon Hai group (65.2%)

#### Financial summary (USD)

Year to 31 Dec	15E	16E	17E
Revenue (m)	7,280	7,750	8,200
Operating profit (m)	385	444	500
Net profit (m)	247	298	343
Core EPS (fully-diluted)	0.033	0.039	0.045
EPS change (%)	46.2	20.6	15.0
Daiwa vs Cons. EPS (%)	5.9	6.5	4.5
PER (x)	16.9	14.0	12.2
Dividend yield (%)	1.7	2.1	2.5
DPS	0.009	0.012	0.014
PBR (x)	1.1	1.0	0.9
EV/EBITDA (x)	4.2	3.4	2.6
ROE (%)	6.3	7.3	7.9

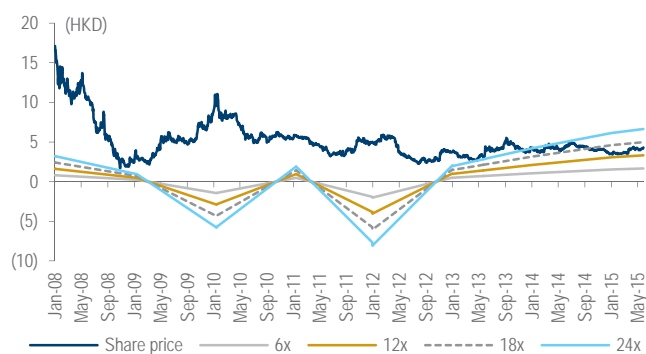
Source: FactSet, Daiwa forecasts

■ **FIH: semi-annual and annual P&L statement**

	2012		2013		2014E		2015E		2013	2014	2015E
	1H	2H	1H	2H	1H	2H	1HE	2HE			
Sales	2504	2736	2476	2521	2283	4546	3241	4039	4997	6830	7280
COGS	2541	2699	2376	2397	2142	4264	3027	3733	4773	6407	6760
Gross profits	-37	37	100	123	141	282	214	306	224	423	520
Other incomes	93	99	118	153	126	133	126	139	271	260	463
Operating expense	214	196	175	190	155	201	190	210	365	356	400
Operating profits	-157	-60	43	86	112	214	150	236	129	326	385
Non-operating income	-62	-50	-2	-26	-23	-35	-10	-17	-28	-58	-27
Pretax income	-220	-111	40	61	89	179	140	219	101	268	358
Net profit	-226	-90	18	60	50	120	95	152	78	169	247
EPS (USD)	-0.031	-0.012	0.002	0.008	0.007	0.016	0.013	0.020	0.010	0.022	0.033
<b>Margin Analysis (%)</b>											
Gross margin	-1.5%	1.3%	4.1%	4.9%	6.2%	6.2%	6.6%	7.6%	4.5%	6.2%	7.1%
Operating margin	-6.3%	-2.2%	1.7%	3.4%	4.9%	4.7%	4.6%	5.8%	2.6%	4.8%	5.3%
Pretax margin	-8.8%	-4.0%	1.6%	2.4%	3.9%	3.9%	4.3%	5.4%	2.0%	3.9%	4.9%
Net margin	-9.0%	-3.3%	0.7%	2.4%	2.2%	2.6%	2.9%	3.8%	1.6%	2.5%	3.4%
<b>YoY %</b>											
Sales	-16%	-19%	-1%	-8%	-8%	80%	42%	-11%	-5%	37%	7%
Gross profits	n.m.	-81%	n.m.	238%	40%	128%	51%	9%	n.m.	89%	23%
Operating income	n.m.	n.m.	n.m.	n.m.	162%	148%	33%	10%	n.m.	153%	18%
Pretax income	n.m.	n.m.	n.m.	n.m.	120%	196%	57%	22%	n.m.	166%	34%
Net income	n.m.	n.m.	n.m.	n.m.	182%	99%	90%	27%	n.m.	118%	46%
<b>HoH %</b>											
Sales	-25%	9%	-9%	2%	-9%	99%	-29%	25%			
Gross profits	n.m.	n.m.	175%	23%	14%	100%	-24%	43%			
Operating income	n.m.	n.m.	n.m.	102%	30%	91%	-30%	57%			
Pretax income	n.m.	n.m.	n.m.	50%	46%	102%	-22%	57%			
Net income	n.m.	n.m.	n.m.	240%	-17%	140%	-21%	61%			

Source: Company, Daiwa forecasts

■ **FIH: 1-year forward PER**



Source: Bloomberg, Daiwa forecasts

■ **FIH: 1-year forward PBR**



Source: Bloomberg, Daiwa forecasts

## Financial summary

### ■ Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Average Selling Price (USD)	72.5	70.7	74.8	64.3	42.4	35.8	32.0	31.8
EMS handset shipment (m)	52.1	50.9	32.5	31.5	39.0	30.0	28.2	28.6
ODM smartphone shipment (m)	2.5	3.2	8.7	16.7	50.4	78.1	102.6	113.8

### ■ Profit and loss (USDm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Handsets Set Revenues	3,961	3,819	3,082	3,098	3,791	3,875	4,184	4,535
Components/Modules Revenues	2,629	2,492	1,776	1,288	2,003	2,480	2,755	2,983
Other Revenue	36	43	382	611	1,036	925	811	682
<b>Total Revenue</b>	<b>6,626</b>	<b>6,354</b>	<b>5,240</b>	<b>4,997</b>	<b>6,830</b>	<b>7,280</b>	<b>7,750</b>	<b>8,200</b>
Other income	0	0	0	0	0	0	0	0
COGS	(6,344)	(6,016)	(5,240)	(4,773)	(6,407)	(6,760)	(7,161)	(7,544)
SG&A	(279)	(275)	(236)	(210)	(213)	(88)	(94)	(101)
Other op. expenses	(56)	78	19	115	117	(47)	(51)	(55)
<b>Operating profit</b>	<b>(52)</b>	<b>143</b>	<b>(218)</b>	<b>129</b>	<b>326</b>	<b>385</b>	<b>444</b>	<b>500</b>
Net-interest inc./(exp.)	(7)	(12)	(11)	6	10	6	7	7
Assoc/forex/extraord./others	(117)	(1)	(101)	(34)	(69)	(33)	(31)	(31)
<b>Pre-tax profit</b>	<b>(176)</b>	<b>130</b>	<b>(330)</b>	<b>101</b>	<b>268</b>	<b>358</b>	<b>420</b>	<b>476</b>
Tax	(44)	(55)	14	(24)	(99)	(111)	(122)	(133)
Min. int./pref. div./others	1	(2)	(0)	(0)	(0)	0	0	0
<b>Net profit (reported)</b>	<b>(218)</b>	<b>73</b>	<b>(316)</b>	<b>77</b>	<b>169</b>	<b>247</b>	<b>298</b>	<b>343</b>
<b>Net profit (adjusted)</b>	<b>(218)</b>	<b>73</b>	<b>(316)</b>	<b>77</b>	<b>169</b>	<b>247</b>	<b>298</b>	<b>343</b>
<b>EPS (reported)(USD)</b>	<b>(0.031)</b>	<b>0.010</b>	<b>(0.043)</b>	<b>0.010</b>	<b>0.022</b>	<b>0.033</b>	<b>0.039</b>	<b>0.045</b>
<b>EPS (adjusted)(USD)</b>	<b>(0.031)</b>	<b>0.010</b>	<b>(0.043)</b>	<b>0.010</b>	<b>0.022</b>	<b>0.033</b>	<b>0.039</b>	<b>0.045</b>
<b>EPS (adjusted fully-diluted)(USD)</b>	<b>(0.031)</b>	<b>0.010</b>	<b>(0.043)</b>	<b>0.010</b>	<b>0.022</b>	<b>0.033</b>	<b>0.039</b>	<b>0.045</b>
<b>DPS (USD)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.025</b>	<b>0.009</b>	<b>0.012</b>	<b>0.014</b>
<b>EBIT</b>	<b>(52)</b>	<b>143</b>	<b>(218)</b>	<b>129</b>	<b>326</b>	<b>385</b>	<b>444</b>	<b>500</b>
<b>EBITDA</b>	<b>235</b>	<b>390</b>	<b>(2)</b>	<b>284</b>	<b>470</b>	<b>517</b>	<b>597</b>	<b>668</b>

### ■ Cash flow (USDm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit before tax	(176)	130	(330)	101	268	358	420	476
Depreciation and amortisation	287	247	216	155	144	132	153	168
Tax paid	(44)	(55)	14	(24)	(99)	(111)	(122)	(133)
Change in working capital	(206)	133	582	(22)	(460)	(199)	(148)	(56)
Other operational CF items	0	(8)	(2)	0	7	0	0	(0)
<b>Cash flow from operations</b>	<b>(138)</b>	<b>448</b>	<b>480</b>	<b>211</b>	<b>(140)</b>	<b>180</b>	<b>304</b>	<b>455</b>
Capex	(201)	(142)	(42)	(55)	(64)	(150)	(100)	(100)
Net (acquisitions)/disposals	11	197	72	(1)	(7)	0	0	0
Other investing CF items	52	94	112	(13)	(30)	0	0	0
<b>Cash flow from investing</b>	<b>(138)</b>	<b>149</b>	<b>141</b>	<b>(69)</b>	<b>(101)</b>	<b>(150)</b>	<b>(100)</b>	<b>(100)</b>
Change in debt	496	(392)	(270)	(87)	39	7	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0
Other financing CF items	204	93	84	104	52	0	0	0
<b>Cash flow from financing</b>	<b>700</b>	<b>(299)</b>	<b>(186)</b>	<b>17</b>	<b>91</b>	<b>7</b>	<b>0</b>	<b>0</b>
Forex effect/others	0	0	0	0	0	0	0	0
<b>Change in cash</b>	<b>424</b>	<b>298</b>	<b>435</b>	<b>159</b>	<b>(150)</b>	<b>37</b>	<b>204</b>	<b>355</b>
Free cash flow	(339)	305	438	155	(204)	30	204	355

Source: FactSet, Daiwa forecasts

## Financial summary continued ...

### ■ Balance sheet (USDm)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & short-term investment	1,624	1,922	2,357	2,517	2,368	2,213	2,355	2,628
Inventory	748	608	348	226	596	676	716	754
Accounts receivable	1,648	1,412	1,132	1,678	2,445	2,493	2,760	2,921
Other current assets	0	63	0	0	299	291	287	293
<b>Total current assets</b>	<b>4,020</b>	<b>4,005</b>	<b>3,837</b>	<b>4,421</b>	<b>5,708</b>	<b>5,673</b>	<b>6,118</b>	<b>6,595</b>
Fixed assets	1,723	1,457	1,094	987	908	926	873	805
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	274	149	157	177	207	207	207	207
<b>Total assets</b>	<b>6,017</b>	<b>5,612</b>	<b>5,088</b>	<b>5,586</b>	<b>6,823</b>	<b>6,806</b>	<b>7,198</b>	<b>7,607</b>
Short-term debt	862	483	215	138	179	184	190	195
Accounts payable	1,401	1,215	1,203	1,585	2,494	2,408	2,550	2,687
Other current liabilities	104	110	101	122	189	197	209	222
<b>Total current liabilities</b>	<b>2,367</b>	<b>1,808</b>	<b>1,519</b>	<b>1,845</b>	<b>2,862</b>	<b>2,789</b>	<b>2,950</b>	<b>3,104</b>
Long-term debt	0	0	0	0	0	0	0	0
Other non-current liabilities	57	45	43	33	31	33	34	36
<b>Total liabilities</b>	<b>2,424</b>	<b>1,853</b>	<b>1,562</b>	<b>1,877</b>	<b>2,893</b>	<b>2,821</b>	<b>2,984</b>	<b>3,140</b>
Share capital	287	289	292	303	312	312	312	312
Reserves/R.E./others	3,306	3,470	3,234	3,406	3,618	3,673	3,902	4,156
<b>Shareholders' equity</b>	<b>3,593</b>	<b>3,759</b>	<b>3,527</b>	<b>3,708</b>	<b>3,930</b>	<b>3,985</b>	<b>4,214</b>	<b>4,467</b>
Minority interests	0	0	0	0	0	0	0	0
<b>Total equity &amp; liabilities</b>	<b>6,017</b>	<b>5,612</b>	<b>5,088</b>	<b>5,586</b>	<b>6,823</b>	<b>6,806</b>	<b>7,198</b>	<b>7,607</b>
EV	3,428	2,751	2,048	1,810	2,001	2,161	2,025	1,758
Net debt/(cash)	(762)	(1,439)	(2,142)	(2,379)	(2,189)	(2,029)	(2,165)	(2,432)
BVPS (USD)	0.504	0.520	0.482	0.499	0.520	0.528	0.558	0.591

### ■ Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Sales (YoY)	(8.1)	(4.1)	(17.5)	(4.6)	36.7	6.6	6.5	5.8
EBITDA (YoY)	(40.0)	66.0	n.a.	n.a.	65.7	9.9	15.6	11.8
Operating profit (YoY)	n.a.	n.a.	n.a.	n.a.	152.9	18.0	15.3	12.6
Net profit (YoY)	n.a.	n.a.	n.a.	n.a.	120.1	46.2	20.6	15.0
Core EPS (fully-diluted) (YoY)	n.a.	n.a.	n.a.	n.a.	116.7	46.2	20.6	15.0
Gross-profit margin	4.3	5.3	n.a.	4.5	6.2	7.1	7.6	8.0
EBITDA margin	3.5	6.1	n.a.	5.7	6.9	7.1	7.7	8.1
Operating-profit margin	n.a.	2.2	n.a.	2.6	4.8	5.3	5.7	6.1
Net profit margin	(3.3)	1.1	(6.0)	1.5	2.5	3.4	3.8	4.2
ROAE	n.a.	2.0	n.a.	2.1	4.4	6.3	7.3	7.9
ROAA	n.a.	1.3	n.a.	1.4	2.7	3.6	4.3	4.6
ROCE	n.a.	3.3	n.a.	3.4	8.2	9.3	10.4	11.0
ROIC	(1.9)	3.2	(11.7)	7.3	13.4	14.4	15.7	17.6
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	n.a.	42.2	n.a.	23.4	36.9	31.0	29.0	28.0
Accounts receivable (days)	84.3	87.9	88.6	102.6	110.2	123.8	123.7	126.4
Current ratio (x)	1.7	2.2	2.5	2.4	2.0	2.0	2.1	2.1
Net interest cover (x)	n.a.	12.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	n.a.	0.0	n.a.	0.0	113.7	28.0	30.0	30.0
Free cash flow yield	n.a.	7.3	10.4	3.7	n.a.	0.7	4.9	8.5

Source: FactSet, Daiwa forecasts

### ■ Company profile

FIH Mobile (FIH), previously named Foxconn International Holdings, was formerly the handset division of Hon Hai Precision Industry (Hon Hai), and was spun off as a 100%-owned subsidiary of Hon Hai in 2000. FIH has since grown its business aggressively, both organically and through M&A activities. FIH was listed on the Hong Kong Stock Exchange on 3 February 2005. Its key accounts include global handset OEMs such as Sony, and China brands such as Xiaomi.

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Source: Daiwa

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