



Rating
Buy

Asia
Hong Kong

Technology
Hardware & Equipment

Company
FIH Mobile Limited

Reuters 2038.HK	Bloomberg 2038 HK	Exchange HKG	Ticker 2038
ADR Ticker FXCNY	ISIN US3516491087		

Date
23 March 2015

Company Update

Price at 20 Mar 2015 (HKD)	4.05
Price target - 12mth (HKD)	5.20
52-week range (HKD)	5.00 - 3.44
HANG SENG INDEX	24,375

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A good proxy for China smartphone

Back to the glory days

FIH reported 2H14 operating profit of USD214m (+148% YoY; +91% HoH) and net profit of USD149m (+151% YoY; +198% HoH) on sales of USD4.5bn (+80% YoY; 99% HoH). 2H14 sales and net profit are the highest figures since 1H08. FIH Mobile is on track to return to its heyday, as we expected. Gross/operating margin improved by 1.3ppt/1.3ppt YoY to 6.2%/4.7%, respectively, thanks to product mix improvement. We reiterate our Buy rating.

Strong orders + improved manufacturing efficiency = strong 2H14

FIH's 2H14 net profit beat DBE/consensus estimates by 26%/14%, owing to strong top-line growth and margin expansion. FIH attributes the top-line strength to robust smartphone orders from Chinese customers (Xiaomi for Mi/RedMi series, Motorola for MotoE, Meizu for MX4, in our view). In addition, Sony smartphone orders posted mild HoH growth, which is a positive surprise (vs. our earlier estimate of 10% HoH decline). FIH Mobile attributes margin expansion to yield rate and manufacturing efficiency improvement. We believe the rising contribution from metal casings also helped to improve gross margin. FIH Mobile is a key metal casing supplier for Xiaomi.

Positive 2015 outlook on China smartphone and metal casings

For 2015 outlook, FIH Mobile expects orders from global brands (Sony, Blackberry, Amazon, etc) to be flat or down slightly, but expects to record strong sales growth from Chinese clients (Xiaomi, Meizu, Oppo, in our view) and win more metal casing orders from its key Chinese clients. We expect FIH Mobile to post 55-60% YoY sales growth from Chinese clients, driven by clients' organic growth and its order allocation gains with major clients.

The first ever cash dividend, raising EPS forecast and reiterating Buy

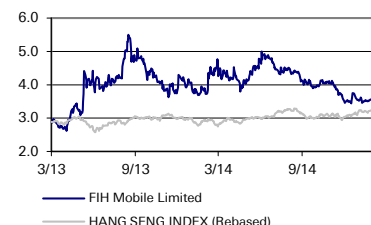
FIH's board has resolved to recommend a cash dividend of US¢0.544 and a special dividend of US¢1.926 (total dividends of US¢2.47, or a dividend yield of ~5%). This is the first ever cash dividend since the firm's IPO. In light of strong result and positive outlook, we raised our 2014E-16E EPS forecast by 8-12%, and raise our ROE-PB based TP from HKD5.0 to HKD5.2 (COE of 6.6, ROE of 7.6%). Risks include inventory, price competition and weak demand.

Key changes

Price target	5.00 to 5.20	↑	4.0%
Sales (FYE)	5,775 to 7,969	↑	38.0%
Op prof margin (FYE)	6.3 to 5.2	↓	-16.9%
Net profit (FYE)	263.4 to 300.3	↑	14.0%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	13.8	13.4	-13.3
HANG SENG INDEX	-1.8	5.4	15.1

Source: Deutsche Bank

Stock data

Market cap (HKDm)	30,120
Market cap (USDm)	3,883
Shares outstanding (m)	7,554.1
Major shareholders	Foxcoon (Far East) Limited (69.49%)
Free float (%)	27
Avg daily value traded (USDm)	3.1

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	7.4
Net debt/equity (%)	-53.8
Book value/share (USD)	0.56
Price/book (x)	0.93

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (USDm)	4,996.9	6,829.9	7,968.6	9,373.2	10,694.0
EBIT (USDm)	129.1	326.4	415.5	530.6	575.3
DB EPS FD(USD)	0.01	0.02	0.04	0.05	0.06
OLD DB EPS FD(USD)	0.01	0.02	0.04	0.05	-
% Change	-3.0%	11.9%	8.9%	7.6%	-
DB EPS growth (%)	-	116.7	77.5	30.7	7.3
Price/BV (x)	1.1	0.9	0.9	0.9	0.8
ROE (%)	2.1	4.4	7.4	8.9	8.9

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

Deutsche Bank AG/Hong Kong

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Model updated: 23 March 2015

Running the numbers

Asia
 Hong Kong
 Hardware & Equipment

FIH Mobile Limited

Reuters: 2038.HK Bloomberg: 2038 HK

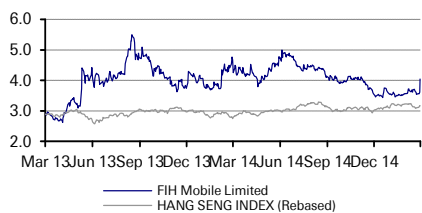
Buy

Price (20 Mar 15) HKD 4.05
 Target Price HKD 5.20
 52 Week range HKD 3.44 - 5.00
 Market Cap (m) HKDm 30,120
 USDm 3,883

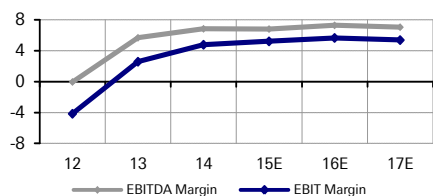
Company Profile

FIH is a vertical integrated manufacturing service provider for the handset industry worldwide. The company's manufacturing services include designing and manufacturing precision tools and molds, products development and manufacturing of components.

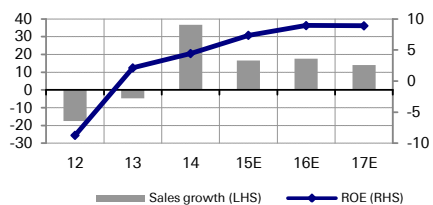
Price Performance



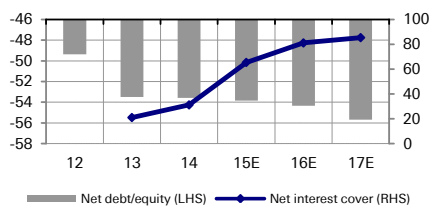
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (USD)	-0.04	0.01	0.02	0.04	0.05	0.06
Reported EPS (USD)	-0.04	0.01	0.02	0.04	0.05	0.06
DPS (USD)	0.00	0.00	0.00	0.00	0.01	0.01
BVPS (USD)	0.5	0.5	0.5	0.6	0.6	0.6
Weighted average shares (m)	7,212	7,437	7,554	7,554	7,554	7,554
Average market cap (USDm)	3,511	3,678	3,945	3,883	3,883	3,883
Enterprise value (USDm)	1,264	1,193	1,320	1,093	879	615

Valuation Metrics

P/E (DB) (x)	nm	47.9	23.3	13.1	10.0	9.4
P/E (Reported) (x)	nm	47.9	23.3	13.1	10.0	9.4
P/BV (x)	0.99	1.08	1.01	0.93	0.87	0.80
FCF Yield (%)	17.9	4.4	2.1	4.4	6.8	8.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	1.5	2.0
EV/Sales (x)	0.2	0.2	0.2	0.1	0.1	0.1
EV/EBITDA (x)	nm	4.2	2.8	2.0	1.3	0.8
EV/EBIT (x)	nm	9.2	4.0	2.6	1.7	1.1

Income Statement (USDm)

Sales revenue	5,240	4,997	6,830	7,969	9,373	10,694
Gross profit	215	379	564	657	809	896
EBITDA	-2	284	467	543	683	754
Depreciation	216	155	141	127	152	179
Amortisation	0	0	0	0	0	0
EBIT	-218	129	326	416	531	575
Net interest income/(expense)	-11	-6	-10	-6	-7	-7
Associates/affiliates	1	1	7	1	1	1
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-103	-23	-55	-20	-15	-8
Profit before tax	-330	101	268	390	510	561
Income tax expense	-14	24	99	90	117	140
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-316	77	169	300	392	421
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	-316	77	169	300	392	421

Cash Flow (USDm)

Cash flow from operations	480	209	143	355	459	536
Net Capex	147	-48	-61	-180	-189	-198
Free cash flow	627	162	82	175	270	338
Equity raised/(bought back)	4	0	0	0	0	0
Dividends paid	0	0	0	0	-60	-78
Net inc/(dec) in borrowings	-268	-77	41	5	6	6
Other investing/financing cash flows	42	75	28	-3	-8	-8
Net cash flow	405	160	150	177	207	257
Change in working capital	582	-22	-160	-71	-85	-63

Balance Sheet (USDm)

Cash and other liquid assets	1,917	2,077	2,227	2,405	2,611	2,868
Tangible fixed assets	1,094	987	908	961	997	1,017
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	476	472	480	471	481	492
Other assets	1,521	1,966	3,102	3,621	4,243	4,833
Total assets	5,009	5,502	6,717	7,457	8,333	9,210
Interest bearing debt	215	138	179	184	190	195
Other liabilities	1,347	1,739	2,714	3,149	3,686	4,215
Total liabilities	1,562	1,877	2,893	3,333	3,876	4,411
Shareholders' equity	3,516	3,699	3,921	4,223	4,557	4,902
Minorities	-69	-74	-97	-99	-100	-102
Total shareholders' equity	3,447	3,625	3,824	4,124	4,457	4,799
Net debt	-1,702	-1,939	-2,049	-2,221	-2,422	-2,673

Key Company Metrics

Sales growth (%)	-17.5	-4.6	36.7	16.7	17.6	14.1
DB EPS growth (%)	na	na	116.7	77.5	30.7	7.3
EBITDA Margin (%)	0.0	5.7	6.8	6.8	7.3	7.1
EBIT Margin (%)	-4.2	2.6	4.8	5.2	5.7	5.4
Payout ratio (%)	nm	0.0	0.0	0.0	15.3	18.6
ROE (%)	-8.7	2.1	4.4	7.4	8.9	8.9
Capex/sales (%)	4.2	3.6	2.0	2.3	2.0	1.9
Capex/depreciation (x)	1.0	1.2	1.0	1.4	1.2	1.1
Net debt/equity (%)	-49.4	-53.5	-53.6	-53.8	-54.3	-55.7
Net interest cover (x)	nm	21.1	31.3	65.4	81.1	85.4

Source: Company data, Deutsche Bank estimates



Business outlook

Strong 2H14 results

FIH's 2H14 net profit beat DBE/consensus estimates by 26%/14%, owing to strong top-line growth and margin expansion. FIH attributes the top-line strength to robust smartphone orders from Chinese customers (Xiaomi for Mi/RedMi series, Motorola for MotoE, Meizu for MX4, in our view). In addition, Sony smartphone orders posted mild HoH growth, which is a positive surprise (vs. our earlier estimate of 10% HoH decline). FIH Mobile attributes margin expansion to yield rate and manufacturing efficiency improvement. We believe the rising contribution from metal casings also helped to improve gross margin. FIH Mobile is a key metal casing supplier for Xiaomi.

Figure 1: 2H14 P&L snapshot

(USDm)	2H14	2H13	YoY	1H14	HoH	2H14E (DB)	% diff	2H14E (Bloomberg Finance LP)	% diff
Sales	4,546	2,521	80%	2,283	99%	2,574	77%	2,714	68%
Gross profits	282	123	128%	141	100%	173	63%	175	61%
Operating expense	68	37	82%	29	134%	46	46%	36	87%
Operating profits	214	86	148%	112	91%	127	69%	139	54%
non-op	-35	-26	36%	-23	49%	-21	67%	-15	129%
Pre-tax	179	61	196%	89	102%	106	69%	124	45%
Net income	119	59	102%	50	139%	94	26%	105	14%
EPS	0.02	0.01	98%	0.01	139%	0.01	21%	0.01	9%
Margin analysis									
Gross margin	6.2%	4.9%		6.2%		6.7%		6.4%	
Operating margin	4.7%	3.4%		4.9%		4.9%		5.1%	
Net margin	2.6%	2.3%		2.2%		3.7%		3.9%	

Source: Deutsche Bank estimates, Bloomberg Finance LP



Positive 2015 outlook – driven by Chinese clients and metal casings

For 2015 outlook, FIH Mobile expects orders from global brands (Sony, Blackberry, Amazon, etc) to be flat or down slightly, but expects to record strong sales growth from Chinese clients (Xiaomi, Meizu, Oppo, in our view) and win more metal casing orders from its key Chinese clients. We expect FIH Mobile to post 55-60% YoY sales growth from Chinese clients, driven by clients' organic growth and its order allocation gains with major clients.

Figure 2: Semi-annual P&L highlights

(USDm)	1H13	2H13	2013	1H14	2H14	2014	1H15E	2H15E	2015E
Sales	2,476	2,521	4,997	2,283	4,546	6,830	3,893	4,075	7,969
Gross profits	100	123	224	141	282	423	242	288	530
Operating profits	43	86	129	112	214	326	187	228	416
Pre-tax	40	61	101	89	179	268	175	215	390
Net income	18	59	77	50	119	169	131	169	300
EPS	0.002	0.008	0.011	0.007	0.016	0.022	0.017	0.022	0.040
Margin Analysis									
Gross margin	4.1%	4.9%	4.5%	6.2%	6.2%	6.2%	6.2%	7.1%	6.6%
Oper. margin	1.7%	3.4%	2.6%	4.9%	4.7%	4.8%	4.8%	5.6%	5.2%
Pre-tax margin	1.6%	2.4%	2.0%	3.9%	3.9%	3.9%	4.5%	5.3%	4.9%
Net margin	0.7%	2.3%	1.5%	2.2%	2.6%	2.5%	3.4%	4.1%	3.8%
YoY change									
Sales	(1%)	(8%)	(5%)	(8%)	80%	37%	71%	(10%)	17%
Gross profits	n.m.	238%	n.m.	40%	128%	89%	71%	2%	25%
Operating expense	(52%)	(62%)	(56%)	(50%)	82%	2%	89%	(12%)	18%
Operating profits	n.m.	n.m.	n.m.	162%	148%	153%	67%	7%	27%
Pre-tax	(118%)	n.m.	n.m.	120%	196%	166%	97%	20%	45%
Net income	(108%)	n.m.	n.m.	182%	102%	120%	163%	42%	77%
HoH change									
Sales	(9%)	24%		-9%	99%		-14%	5%	
Gross profits	175%	23%		14%	100%		-14%	19%	
Operating expense	(40%)	(36%)		-22%	134%		-19%	9%	
Operating profits	(171%)	n.m.		30%	91%		-13%	22%	
Pre-tax	(137%)	n.m.		46%	102%		-3%	23%	
Net income	(120%)	n.m.		-16%	139%		10%	29%	
Sales breakdown (%)									
Motorola	4%	3%	3%	9%	24%	19%	16%	12%	14%
Nokia	11%	8%	10%	11%	6%	8%	4%	5%	4%
Sony	39%	40%	40%	37%	21%	27%	21%	21%	21%
Huawei	15%	15%	15%	12%	5%	7%	9%	6%	8%
Xiaomi	3%	5%	4%	13%	15%	14%	20%	23%	22%
Other Chinese clients	5%	7%	6%	7%	18%	14%	21%	21%	21%
Apple	3%	3%	3%	3%	1%	2%	2%	2%	2%
Amazon	11%	7%	9%	3%	3%	3%	3%	2%	2%
Others	10%	12%	11%	4%	8%	7%	5%	8%	6%
Total	4%	3%	3%	9%	24%	19%	16%	12%	14%

Source: Deutsche Bank, Company data



Valuation and risks

Buy rating with a 12-month target price of HKD5.2

In light of strong result and positive outlook, we raised our 2014E-16E EPS forecast by 8-12%, and raise our ROE-PB based target price from HKD5.0 to HKD5.2 (COE of 6.6, ROE of 7.6%); maintaining Buy.

Figure 3: Earnings revision

P/L Revision (USDm)	2013	2014E		2015E		2016E		2014E-2016E (%)		
		Old	New	Old	New	Old	New	2014E	2015E	2016E
Net sales	4,997	4,857	6,830	5,775	7,969	7,046	9,373	40.6	38.0	33.0
Gross profits	224	315	423	445	530	567	657	34.5	19.0	15.8
Op. expenses	95	75	97	83	114	95	127	28.4	38.0	33.0
Op. profit	129	239	326	362	416	472	531	36.4	14.7	12.4
Non-op gain/loss	-28	-44	-58	-25	-26	-20	-21	31.7	3.9	5.0
Pre-tax profits	101	195	268	338	390	452	510	37.5	15.5	12.7
Net profit	77	144	169	263	300	348	392	17.2	14.0	12.7
EPS	0.011	0.020	0.022	0.037	0.040	0.048	0.052	11.9	8.9	7.6
Key ratio (%)										
Sale growth	-4.6	-2.8	36.7	18.9	16.7	22.0	17.6			
Gross margin	4.5	6.5	6.2	7.7	6.6	8.0	7.0			
Ope. margin	2.6	4.9	4.8	6.3	5.2	6.7	5.7			
Net margin	1.5	3.0	2.5	4.6	3.8	4.9	4.2			

Source: Deutsche Bank estimates; Bloomberg Finance LP

We typically use P/E multiples to value the technology downstream companies, as this is the most intuitive way to evaluate the firms' (near-term) earnings power. But FIH Mobile has just exited a multi-year down-cycle and is still in the relatively early stages of a turnaround. We believe using P/E methodology could significantly underestimate its long-term growth potential.

For our ROE-PB methodology, we assign 2015E ROE of 7.6% to derive our target P/B multiple of 1.2x. Over the past four years, FIH ROE has been hovering in the low single digits or even in negative territory, mainly because of Nokia's and Motorola's rapid market share loss and FIH Mobile's failure to find a strong growth driver. Looking forward, we believe FIH Mobile will regain growth momentum on smartphone ODM projects from Sony, Chinese clients, mobile operators (mainly in emerging countries) and Internet companies (such as Amazon).

Figure 4: ROE-P/B valuation

COE calculation		ROE/PB	
Risk Free Rate	2.8%	ROE	7.6%
Risk Premium	3.8%	COE	6.6%
Country Premium	4.9%	g	2.0%
Adj. Beta	0.8	ROE-g/COE-g	1.21
Cost of Equity	6.6%	BVPS (HKD)	4.3
		Fair value (HKD)	5.2

Source: Deutsche Bank



Key near-term share price catalysts for FIH Mobile include strong orders from Xiaomi and emerging Chinese brands (Meizu, Oppo, Smartisan, etc) due to new product launches, and gross margin expansion due to product mix improvement (from plastic casings to metal casings).

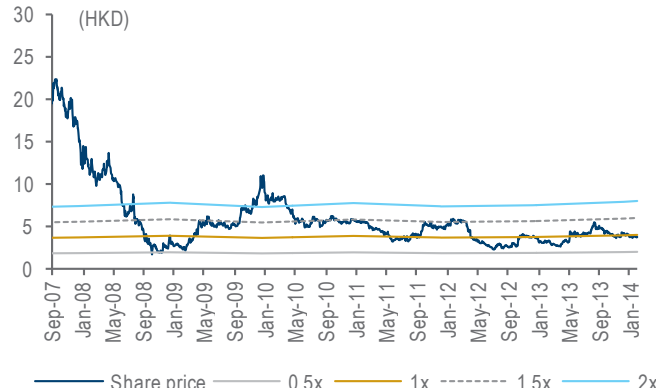
Long-term catalysts include the rapid growth of low-end smartphones and margin expansion (due to better production scale and product mix). We also like the company's strong balance sheet (sitting on net cash of USD2.5bn+), strong free cash flows, and leading industry position with a diversified clientele.

Figure 5: Forward P/E band



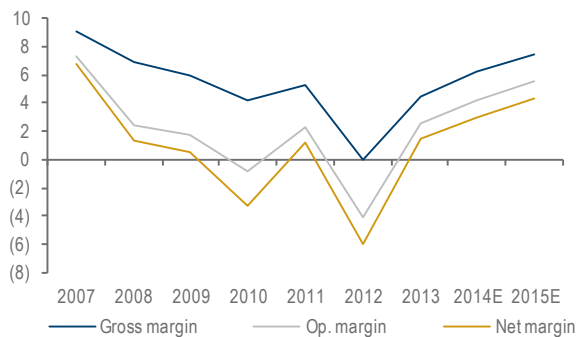
Source: Deutsche Bank; TEU

Figure 6: Forward P/B band



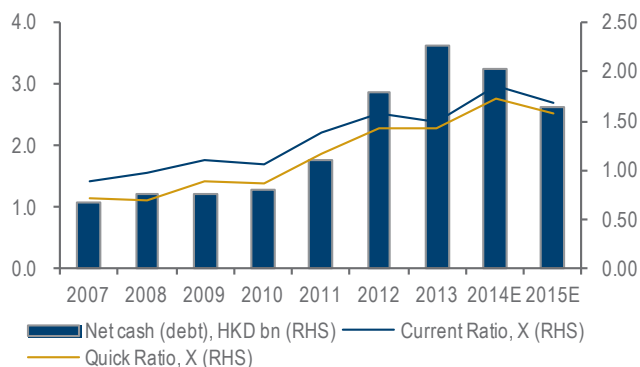
Source: Deutsche Bank; TEU

Figure 7: Gross margin and operating margin are trending up



Source: Deutsche Bank; company data

Figure 8: Maintaining positive free cash flows with superior short-term liquidity



Source: Deutsche Bank; company data



Investment risks and sensitivity analysis

Risks to our positive view could include a gross margin decline as a result of USD depreciation and price competition, and/or slower sales growth due to market share loss to competitors and an ASP decline because of competition.

In order to assess the key risks, we have conducted a sensitivity analysis in which we consider the impact of changes in ASPs and gross margins on our 2015 EPS and 2016 EPS assumptions.

Figure 9: EPS sensitivity analysis

2015E EPS (US cent)		% change in ASP assumption								
		-12.0%	-9.0%	-6.0%	-3.0%	0.0%	3.0%	6.0%	9.0%	12.0%
% change in gross margin assumption	-2.0%	2.44	2.57	2.69	2.82	2.94	3.07	3.19	3.31	3.44
	-1.5%	2.85	2.99	3.13	3.27	3.40	3.54	3.68	3.82	3.96
	-1.0%	3.26	3.41	3.56	3.72	3.87	4.02	4.17	4.32	4.48
	-0.5%	3.67	3.83	4.00	4.17	4.33	4.50	4.66	4.83	4.99
	0.0%	4.08	4.26	4.43	4.61	4.79	4.97	5.15	5.33	5.51
	0.5%	4.48	4.68	4.87	5.06	5.26	5.45	5.64	5.84	6.03
	1.0%	4.89	5.10	5.31	5.51	5.72	5.93	6.14	6.34	6.55
	1.5%	5.30	5.52	5.74	5.96	6.18	6.41	6.63	6.85	7.07
	2.0%	5.71	5.94	6.18	6.41	6.65	6.88	7.12	7.35	7.59

Source: Deutsche Bank estimates

Note 1: The column and row in blue represent the base-case scenario in our earnings model

Note 2: Other assumptions include: (1) 70% of opex is fixed and 30% is variable (in proportion to sales growth or decline); (2) non-op gain/loss (interest income/expense, forex gain/loss, etc), and tax rate are unchanged in our sensitivity analysis

Figure 10: EPS sensitivity analysis

2016E EPS (US cent)		% change in ASP assumption								
		-12.0%	-9.0%	-6.0%	-3.0%	0.0%	3.0%	6.0%	9.0%	12.0%
% change in gross margin assumption	-2.0%	3.28	3.44	3.59	3.74	3.90	4.05	4.20	4.36	4.51
	-1.5%	3.75	3.92	4.09	4.26	4.43	4.60	4.77	4.94	5.11
	-1.0%	4.22	4.40	4.59	4.78	4.96	5.15	5.33	5.52	5.70
	-0.5%	4.69	4.89	5.09	5.29	5.49	5.69	5.90	6.10	6.30
	0.0%	5.16	5.37	5.59	5.81	6.03	6.24	6.46	6.68	6.89
	0.5%	5.62	5.86	6.09	6.32	6.56	6.79	7.02	7.26	7.49
	1.0%	6.09	6.34	6.59	6.84	7.09	7.34	7.59	7.84	8.09
	1.5%	6.56	6.83	7.09	7.36	7.62	7.89	8.15	8.42	8.68
	2.0%	7.03	7.31	7.59	7.87	8.15	8.44	8.72	9.00	9.28

Source: Deutsche Bank estimates

Note 1: The column and row in blue represent the base-case scenario in our earnings model

Note 2: Other assumptions include: (1) 70% of opex is fixed and 30% is variable (in proportion to sales growth or decline); (2) non-op gain/loss (interest income/expense, forex gain/loss, etc), and tax rate are unchanged in our sensitivity analysis

In addition, some investors might view its parent company Hon Hai as a future competitor. However, we don't think this will happen. Despite sharing similar business models, Hon Hai and FIH Mobile have a clear definition of their respective business scopes. FIH Mobile focuses on handset and smartphone ODM/EMS business (excluding iPhone). Hon Hai focuses on iPhone and the ODM/EMS business of NB PC, DT PC, flat-panel TV, game console and other consumer electronics.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
FIH Mobile Limited	2038.HK	4.05 (HKD) 20 Mar 15	14,15,17

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Historical recommendations and target price: FIH Mobile Limited (2038.HK)

(as of 3/20/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1. 01/07/2013:	No Recommendation, Target Price Change HKD0.00	4. 13/08/2014:	Buy, Target Price Change HKD5.40
2. 21/10/2013:	Upgrade to Buy, Target Price Change HKD5.80	5. 25/11/2014:	Buy, Target Price Change HKD5.00
3. 05/08/2014:	Buy, Target Price Change HKD5.20		

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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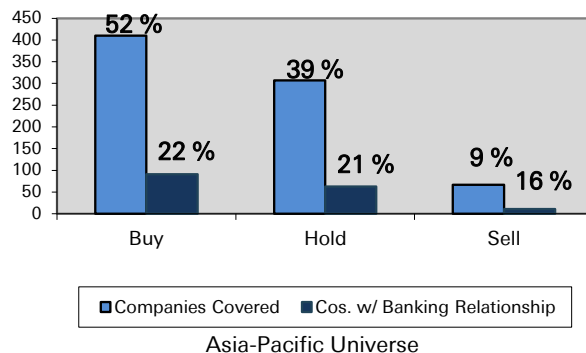
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Equity rating dispersion and banking relationships





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