

## FIT Hon Teng Ltd. (6088 HK)

### NDR takeaways: Accelerated auto/smart home transition

- ❖ **Positive outlook with accelerated transition in FY18E.** We hosted FIT's NDR in Shanghai and Hong Kong in past two weeks. Overall, investors were interested about 1) share allocation in Apple's iPhone/iPad, 2) Belkin's outlook, 3) optical module competition, and 4) M&A progress in automobile segment. As global 4<sup>th</sup> largest connector player, FIT is poised to accelerate expansion into smart home/IoT and automotive segments, and expected to deliver double digit sales growth in FY18E and 20%+ YoY growth in FY19E, thanks to 1) share gain in Apple's biz, 2) strong demand of optical modules, 3) expansion of Belkin's smart home/IoT, and 4) further of Honhai's automobile biz (Shartp's JV, Honhai's smart key biz).
- ❖ **Mobile: Share gain in Apple's connectors and Belkin's smart home/IoT.** Mgmt indicated stable sales growth in mobile biz in FY18-19E, given higher share allocation (35%, vs 30% in FY17) in Apple's connector biz (connector/sim tray/cable/earphone), partly offset by disposal of dongles in 2H18 new iPhones. To accelerate expansion into smart home/IoT segments, FIT announced in 1H18 to acquire Belkin, a premium brand in accessories and smart home ecosystem (30%+ GPM). The acquisition is under review by TW govt. and the result will be announced on 20<sup>th</sup> Aug. By leveraging its strong capability in supply chain management and manufacturing expertise, FIT targeted to improve NPM to 6% in FY18E (vs 0.5% in FY17), offsetting the loss of dongles biz to certain extent.
- ❖ **Automotive: Solid product roadmap via M&A.** FIT targeted to expand its automotive segment (Telsa's charging biz) with organic growth of 20-30% YoY in FY18E. Mgmt also indicated to boost biz transition via M&A in FY18-19E: 1) establishing a JV with Sharp on auto camera module in Feb for HK\$107.87 mn (as part of ADAS); 2) purchasing Hon Hai's auto electronics division in May for HK\$131.58 mn (mainly smart key); 3) further integration of in-vehicle display and infotainment system as sole automotive platform for Hon Hai Group.
- ❖ **Comm. Infra.: high-end products posted strong growth.** Despite slow demand of copper-based product, mgmt. expected 40G/100G optical modules to ramp up by 40% YoY in FY18E, partly offset by 30% price erosion. The major growth drivers came from its largest customer, Cisco, and other datacenters such as Huawei and Google. Mgmt expects 400G products will start mass production in FY19E, thus further improving product mix and profitability.
- ❖ **Emerging leader in smart home/automotive connectors.** Leveraging its solid technology expertise and manufacturing capability, FIT continues to expand into non-PC/mobile markets in next 3-5 years, which should drive earnings growth beyond FY19-20E. Based on Bloomberg consensus, the stock now trades at 14.0x/12.5x FY18/19E P/E, compared to 13%/13% FY18/19E EPS growth. Upcoming catalysts include 1H18 results in Aug and Belkin results on 20<sup>th</sup> Aug.

#### Earnings summary

(YE Dec 31)	FY15A	FY16A	FY17A
Turnover (Usd mn)	2,328	2,880	3,399
Net profit (Usd mn)	177.0	168.6	180.5
EPS (Usd)	51.3	3.0	3.0
EPS CHG (%)	n.a.	(0.9)	(0.0)
PE (x)	1.1	18.8	19.2
PB (x)	0.2	2.5	2.0
Yield (%)	n.a.	1.4	1.2
ROE (%)	14.9	13.1	10.2
Net gearing (%)	0.6	0.7	0.4

Source: Company, CMBIS

### Not rated

Current Price HK\$3.52

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#### Technology Sector

Mkt. Cap. (HK\$mnn)	23,703
Avg. 3mths t/o (HK\$mnn)	31.22
52W High/Low (HK\$)	7.38 / 2.81
Total Issued Shares (mn)	6,733.9

Source: Bloomberg

#### Shareholding Structure

Foxconn Far East Ltd	76.92%
Lu Sung-Ching	1.42%
Franklin Resources Inc	0.67%

Source: Bloomberg

#### Share performance

	Absolute	Relative
1-mth	1.4%	7.8%
3-mth	12.0%	19.0%
6-mth	-34.3%	-27.6%

Source: Bloomberg

#### 12-mth price performance



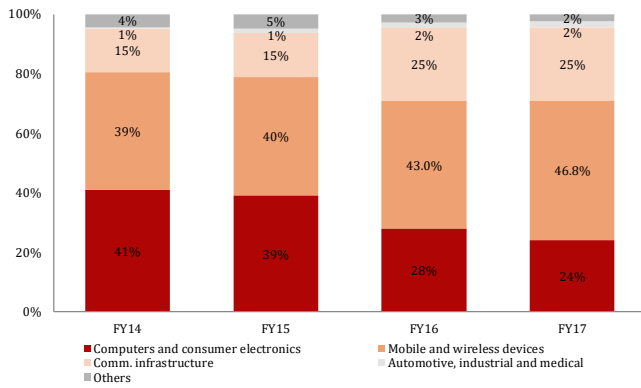
Source: Bloomberg

Auditor: Pricewaterhouse Coopers

Web-site: [www.fit-foxconn.com](http://www.fit-foxconn.com)

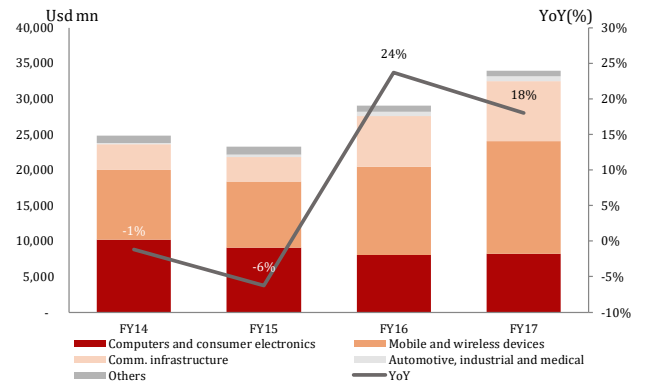
## Focus Charts

**Figure 1: FIT's revenue mix**



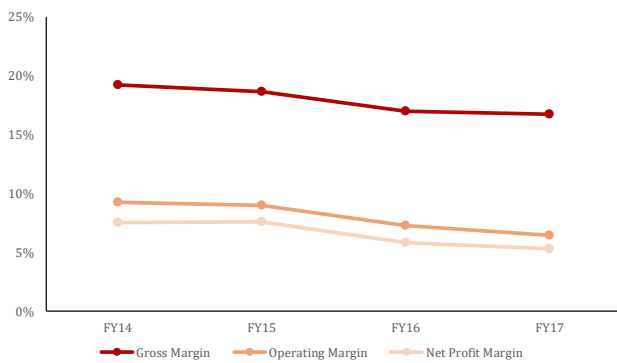
Source: Company, CMBIS

**Figure 2: FIT's revenue trend**



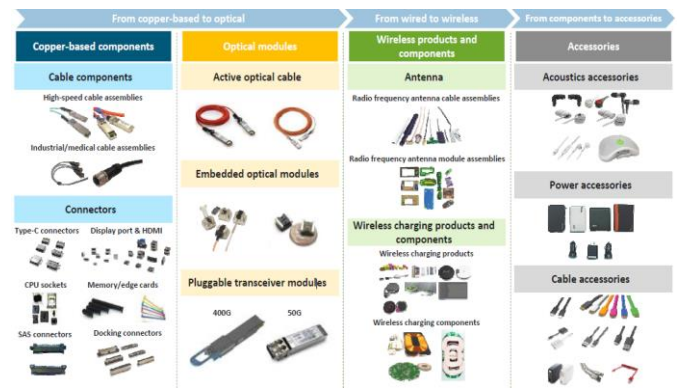
Source: Company, CMBIS

**Figure 3: FIT's margin trend**



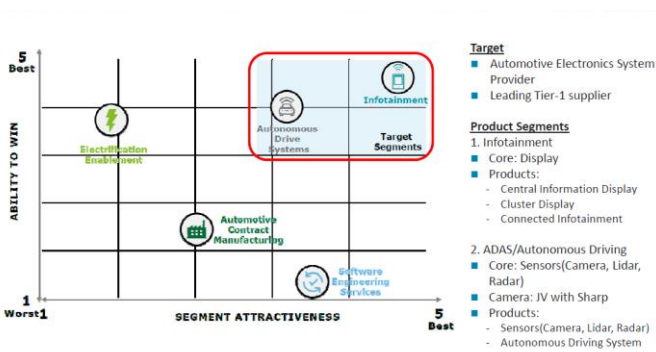
Source: Company, CMBIS

**Figure 4: FIT's major product portfolio**



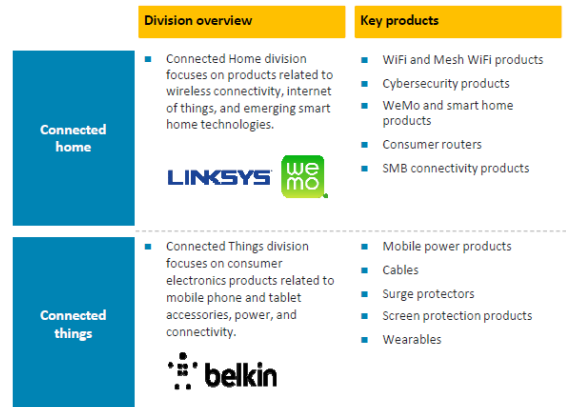
Source: Company, CMBIS

**Figure 5: FIT's auto growth strategy**



Source: Company, CMBIS

**Figure 6: Belkin's overview**



Source: Company, CMBIS

**Figure 7: Revenue breakdown**

USD mn, Dec-YE	2014	2015	2016	2017
<b>Computers and consumer electronics</b>	<b>1,018</b>	<b>911</b>	<b>807</b>	<b>819</b>
...YoY		-10%	-11%	-5%
<b>Mobile and wireless devices</b>	<b>980</b>	<b>925</b>	<b>1,238</b>	<b>1,590</b>
...YoY		-6%	34%	28%
<b>Communications infrastructure</b>	<b>363</b>	<b>348</b>	<b>711</b>	<b>844</b>
...YoY		-4%	104%	19%
<b>Automotive, industrial and medical</b>	<b>15</b>	<b>30</b>	<b>44</b>	<b>64</b>
...YoY		104%	48%	100%
<b>Others</b>	<b>107</b>	<b>114</b>	<b>80</b>	<b>83</b>
...YoY		6%	-30%	6%
<b>Total</b>	<b>2,482</b>	<b>2,328</b>	<b>2,880</b>	<b>3,399</b>
<b>...YoY</b>		<b>-6%</b>	<b>24%</b>	<b>18%</b>

Source: Company, CMBIS

**Figure 8: P&L summary**

USD mn, Dec-YE	2014	2015	2016	2017
<b>Revenue</b>	<b>2,482</b>	<b>2,328</b>	<b>2,880</b>	<b>3,399</b>
Cost of sales	(2,005)	(1,893)	(2,390)	(2,829)
<b>Gross profit</b>	<b>478</b>	<b>435</b>	<b>490</b>	<b>569</b>
Distribution costs and selling expenses	(72)	(68)	(87)	(83)
Administrative expenses	(76)	(90)	(68)	(81)
Research and development expenses	(118)	(122)	(169)	(190)
Other income	6	7	9	19
Other (losses)/gains - net	14	47	35	(15)
<b>Operating profit</b>	<b>230</b>	<b>209</b>	<b>210</b>	<b>220</b>
Finance (costs)/income - net	4	(0)	2	5
Finance income	7	6	6	10
Finance costs	(3)	(6)	(4)	(5)
Share of results of an associate	-	(0)	(0)	(0)
<b>Profit before income tax</b>	<b>234</b>	<b>209</b>	<b>212</b>	<b>225</b>
Income tax expense	(47)	(32)	(43)	(44)
<b>Profit</b>	<b>187</b>	<b>177</b>	<b>169</b>	<b>180</b>
Profit attributable to Owners of the Company	187	177	169	180
Non-controlling interests	(0)	0	-	-
<b>MARGIN ANALYSIS</b>				
Gross Margin	19.2%	18.7%	17.0%	16.8%
Operating Margin	9.3%	9.0%	7.3%	6.5%
Net Profit Margin	7.5%	7.6%	5.9%	5.3%
<b>GROWTH ANALYSIS</b>				
Revenue		-6.2%	23.7%	18.0%
Gross profit		-8.9%	12.7%	16.1%
Operating profit		-9.1%	0.3%	4.7%
Net income		-5.4%	-4.8%	7.1%

Source: Company, CMBIS

**Figure 9: Peers' valuation**

Company	Ticker	CCY (LC)	Price (LC)	Market Cap US\$(mn)	P/E (x)		P/B (x)		ROE (%)	
					FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
<b>Global Connector Company</b>										
TE CONNECTIVITY	TEL US	USD	91.85	32,160	16.5	15.2	3.3	2.9	18.2	20.2
AMPHENOL CORP-A	APH US	USD	88.71	26,740	25.1	22.8	6.8	5.7	27.2	26.9
DELPHI TECHNOLOG	DLPH US	USD	44.14	3,919	8.9	8.3	8.6	4.9	169.4	88.3
FINISAR CORP	FNSR US	USD	18.22	2,094	19.5	21.7	1.3	1.2	6.7	6.7
FABRINET	FN US	USD	38.86	1,434	13.3	12.0	-	-	-	-
JAPAN AVIAT ELEC	6807 JP	JPY	1778	1,460	12.8	11.8	1.4	1.2	11.3	10.8
HIROSE ELECTRIC	6806 JP	JPY	13610	4,663	22.2	23.4	1.6	1.6	7.3	6.8
LUXSHARE PRECI-A	002475 CH	CNY	24.52	11,657	30.7	22.4	5.1	4.2	18.0	20.3
CHENG UEI	2392 TT	TWD	31.90	535	-	-	-	-	-	-
FOXCONN TECH	2354 TT	TWD	75.50	3,499	10.4	10.2	0.7	0.7	7.4	7.2
HON HAI	2317 TT	TWD	82.80	47,008	10.3	9.6	1.2	1.1	11.8	12.0
				<b>Average</b>	<b>17.0</b>	<b>15.7</b>	<b>3.3</b>	<b>2.6</b>	<b>30.8</b>	<b>22.1</b>
<b>HK-listed Component</b>										
FIT HONG TENG	6088 HK	USD	3.52	3,020	14.0	12.5	1.4	1.3	11.2	11.8
AAC TECHNOLOGIES	2018 HK	CNY	110.10	17,142	18.1	14.5	5.2	4.2	31.6	31.4
SUNNY OPTICAL	2382 HK	CNY	152.30	21,287	35.0	25.4	13.1	9.3	43.9	42.8
FIH MOBILE LTD	2038 HK	USD	1.21	1,248	-	25.7	0.4	0.4	(4.3)	1.2
TONGDA GROUP HLD	698 HK	HKD	1.65	1,324	7.9	6.5	1.5	1.3	20.6	21.6
BYD ELECTRONIC	285 HK	CNY	10.24	2,940	7.4	6.3	1.2	1.0	16.3	16.1
TRULY INTL HLDGS	732 HK	HKD	1.39	553	7.3	4.7	0.6	0.5	8.4	13.6
Q TECHNOLOGY	1478 HK	CNY	4.75	685	15.3	10.0	1.9	1.6	13.4	17.2
SMIC	981 HK	USD	9.72	6,184	65.2	53.8	1.2	1.1	1.8	2.5
YOFC-H	6869 HK	CNY	32.50	2,825	11.0	9.9	2.2	1.9	25.6	22.4
O-NET TECHNOLOGIES	877 HK	HKD	4.59	469	12.5	9.8	1.5	1.3	13.9	15.4
JU TENG INTL HDG	3336 HK	HKD	1.44	211	5.9	7.1	0.2	0.2	3.5	3.4
TK GROUP HOLDING	2283 HK	HKD	6.19	657	13.0	10.8	4.5	3.6	38.1	37.3
COWELL	1415 HK	USD	1.61	171	6.0	5.5	0.5	0.5	7.7	7.5
				<b>Average</b>	<b>17.7</b>	<b>15.1</b>	<b>2.7</b>	<b>2.1</b>	<b>17.2</b>	<b>18.2</b>

Source: Bloomberg, CMBIS

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