

12 May 2022 11:37:42 ET | 14 pages

Hon Hai Precision (2317.TW)

Solid 1Q22 Results; Improving Order Visibility & Margins: Buy

CITI'S TAKE

Hon Hai's 1Q22 results beat Citi/cons. forecast on better OPM, while GPM was broadly in-line. Despite China's COVID-19 lockdowns and rising macro uncertainties, mgmt. reiterated its guidance which implies 2Q22E/2022E sales to be flat y-o-y, with margins expected to improve. Per mgmt., current order visibility is better than what it was in Mar-22, especially for computing segment, where mgmt. now expects single-digit% growth y-o-y vs. flat earlier. Hon Hai also announced the completion of Lordstown's factory acquisition today ([link](#)), with initial ramp-up to start from 2H22E. Overall, we see mgmt.'s commentaries as positive, and expect the company to fare better in a highly volatile market through the leverage of its global footprint, supply chain management, and component sourcing capability.

1Q22 results beat — Reported net profit of NT\$29.45bn was -34% q-o-q/+5% y-o-y. The number beat Citi/cons. forecast by 4% on better OPM. 1Q22 OPM of 2.6% came in higher than cons. estimates of 2.3% on stringent opex control, while GPM of 6.0% was broadly in-line. While non-op gains of NT\$258mn was significantly lower than previous quarters, as market volatility weighed on valuation gains of financial assets, the miss was offset by lower minority interest, leading to a beat at the bottom-line.

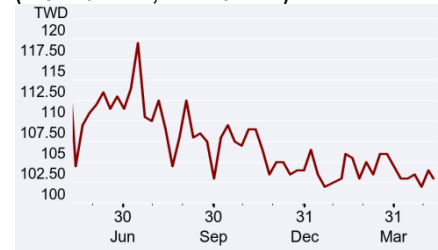
Guidance unchanged with improving visibility — Mgmt. reiterated its guidance which implies 2Q22E/2022E sales to be flat y-o-y, with margins expected to improve. The guide implies limited impact from recent lockdowns and end demand volatility, given the company's global footprint, component sourcing capability, and exposure to mid-to-high end products. Per mgmt., its order visibility is getting better than before, especially for computing segment and potential share gains. Following Lordstown's Ohio plant acquisition, EV assembly is expected to ramp-up from 2H22E for Lordstown's Endurance and Fisker's Project PEAR in 2024E.

Implications — We keep our 2022E/23E EPS estimates broadly unchanged and our TP stays at NT\$146, still based on 13x avg. 2H22E-1H23E EPS. We also introduce our 2024E earnings estimates with this note. We like the company due to its product mix optimization (servers, components) for better margins, internal streamlining for better operational efficiency and sustainable opex control, strong vertical integration, as well as supply chain management/component sourcing capability. We expect these core competencies to help the company fare better in a highly volatile market, while the endeavors into EV would add additional fuels.

Buy	
Price (12 May 22 13:30)	NT\$102.00
Target price	NT\$146.00
Expected share price return	43.1%
Expected dividend yield	5.1%
Expected total return	48.2%
Market Cap	NT\$1,414,025M US\$47,519M

Price Performance

(RIC: 2317.TW, BB: 2317 TT)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(NT\$M)	(NT\$)	(%)	(x)	(x)	(%)	(%)
2020A	101,795	7.34	-11.7	13.9	1.1	8.0	3.9
2021A	139,320	10.05	36.9	10.1	1.0	10.4	5.1
2022E	152,212	10.98	9.3	9.3	0.8	9.8	5.4
2023E	175,605	12.67	15.4	8.1	0.8	9.9	6.2
2024E	188,564	13.60	7.4	7.5	0.7	10.1	6.7

Source: Powered by dataCentral

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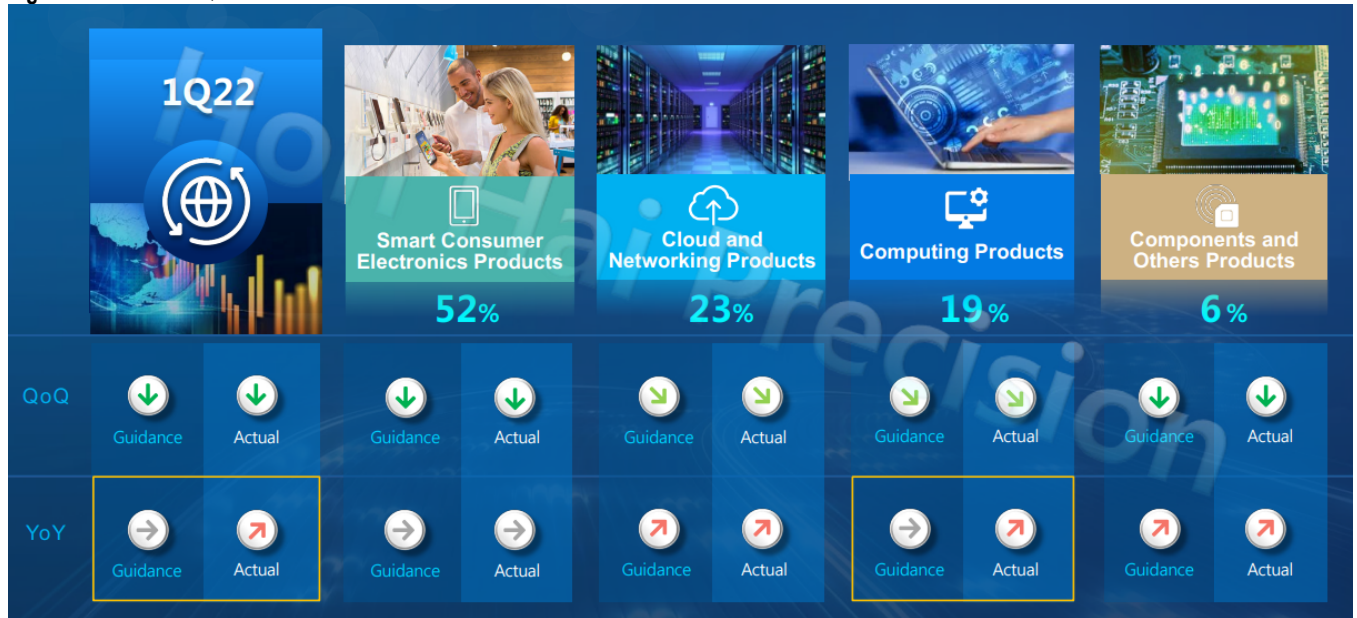
See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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2317.TW: Fiscal year end 31-Dec						Price: NT\$102.00; TP: NT\$146.00; Market Cap: NT\$1,414,025m; Recomm: Buy					
Profit & Loss (NT\$m)	2020	2021	2022E	2023E	2024E	Valuation ratios	2020	2021	2022E	2023E	2024E
Sales revenue	5,358,023	5,994,174	6,315,676	6,708,734	7,126,726	PE (x)	13.9	10.1	9.3	8.1	7.5
Cost of sales	-5,055,104	-5,632,047	-5,918,941	-6,265,848	-6,647,311	PB (x)	1.1	1.0	0.8	0.8	0.7
Gross profit	302,919	362,127	396,736	442,886	479,415	EV/EBITDA (x)	4.2	3.1	2.1	1.6	1.9
Gross Margin (%)	5.7	6.0	6.3	6.6	6.7	FCF yield (%)	29.3	-12.7	17.0	-18.2	13.4
EBITDA (Adj)	175,941	224,441	290,183	342,894	373,342	Dividend yield (%)	3.9	5.1	5.4	6.2	6.7
EBITDA Margin (Adj) (%)	3.3	3.7	4.6	5.1	5.2	Payout ratio (%)	54	52	50	50	50
Depreciation	-65,114	-75,481	-107,887	-133,878	-146,301	ROE (%)	8.0	10.4	9.8	9.9	10.1
Amortisation	0	0	0	0	0	Cashflow (NT\$m)	2020	2021	2022E	2023E	2024E
EBIT (Adj)	110,827	148,959	182,297	209,016	227,041	EBITDA	175,941	224,441	290,183	342,894	373,342
EBIT Margin (Adj) (%)	2.1	2.5	2.9	3.1	3.2	Working capital	199,655	-317,274	75,194	-481,334	-60,807
Net interest	7,617	10,498	6,331	3,801	3,997	Other	3,498	4,864	-20,870	-20,212	-24,344
Associates	6,902	28,660	4,000	4,000	4,000	Operating cashflow	379,094	-87,969	344,508	-158,653	288,191
Non-Op/Except/Other Adj	20,126	5,455	16,238	28,775	28,507	Capex	-59,395	-84,527	-99,929	-95,000	-95,000
Pre-tax profit	145,472	193,572	208,866	245,592	263,545	Net acq/disposals	88,312	31,586	-4,000	-4,000	-4,000
Tax	-31,147	-39,749	-47,439	-56,787	-60,848	Other	5,669	-39,142	0	0	0
Extraord./Min.Int./Pref.div.	-12,531	-14,503	-9,215	-13,199	-14,133	Investing cashflow	34,586	-92,083	-103,929	-99,000	-99,000
Reported net profit	101,795	139,320	152,212	175,605	188,564	Dividends paid	-60,910	-58,745	-72,029	-76,106	-87,803
Net Margin (%)	1.9	2.3	2.4	2.6	2.6	Financing cashflow	-25,118	24,281	188,066	-76,106	-87,803
Core NPAT	101,795	139,320	152,212	175,605	188,564	Net change in cash	376,400	-163,134	428,644	-333,759	101,388
Per share data	2020	2021	2022E	2023E	2024E	Free cashflow to s/holders	413,680	-180,052	240,579	-257,653	189,191
Reported EPS (\$)	7.34	10.05	10.98	12.67	13.60						
Core EPS (\$)	7.34	10.05	10.98	12.67	13.60						
DPS (\$)	4.00	5.20	5.49	6.33	6.80						
CFPS (\$)	27.35	-6.35	24.85	-11.45	20.79						
FCFPS (\$)	29.84	-12.99	17.36	-18.59	13.65						
BVPS (\$)	93.58	99.58	124.12	131.30	138.57						
Wtd avg ord shares (m)	13,862	13,862	13,862	13,862	13,862						
Wtd avg diluted shares (m)	13,862	13,862	13,862	13,862	13,862						
Growth rates	2020	2021	2022E	2023E	2024E						
Sales revenue (%)	0.3	11.9	5.4	6.2	6.2						
EBIT (Adj) (%)	-3.5	34.4	22.4	14.7	8.6						
Core NPAT (%)	-11.7	36.9	9.3	15.4	7.4						
Core EPS (%)	-11.7	36.9	9.3	15.4	7.4						
Balance Sheet (NT\$m)	2020	2021	2022E	2023E	2024E						
Cash & cash equiv.	1,277,863	1,109,958	1,538,602	1,204,843	1,306,231						
Accounts receivables	942,484	1,161,219	1,016,898	1,394,643	1,483,414						
Inventory	582,114	672,145	623,942	771,672	819,295						
Net fixed & other tangibles	287,092	310,107	302,150	263,273	211,972						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	584,722	655,450	877,660	923,419	949,765						
Total assets	3,674,276	3,908,878	4,359,252	4,557,849	4,770,677						
Accounts payable	1,065,593	1,076,178	1,169,892	1,212,627	1,287,463						
Short-term debt	542,474	608,958	608,958	608,958	608,958						
Long-term debt	233,285	275,600	275,600	275,600	275,600						
Provisions & other liab	358,778	374,883	382,050	425,214	448,311						
Total liabilities	2,200,129	2,335,618	2,436,499	2,522,398	2,620,332						
Shareholders' equity	1,297,277	1,380,457	1,720,735	1,820,235	1,920,996						
Minority interests	176,869	192,803	202,018	215,216	229,350						
Total equity	1,474,146	1,573,260	1,922,753	2,035,451	2,150,345						
Net debt (Adj)	-502,104	-225,400	-654,044	-320,286	-421,674						
Net debt to equity (Adj) (%)	-34.1	-14.3	-34.0	-15.7	-19.6						

For definitions of the items in this table, please click [here](#).

Figure 1. Hon Hai - 1Q22 Performance Review



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Source: Citi Research, Company Reports

Figure 2. Hon Hai - 2Q22E Business Outlook



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Figure 3. Hon Hai - 2022E Business Outlook



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Source: Citi Research, Company Reports

Figure 4. Hon Hai - 1Q22 Earnings Review (NT\$m)

	1Q22			4Q21			1Q21			1Q22		
	Actual	Actual	Q/Q	Actual	Y/Y	Citi	Diff.	Con's	Diff.			
Revenue	1,407,553	1,889,826	-26%	1,347,113	4%	1,346,072	5%	1,371,000	3%			
Gross profit	84,766	113,866	-26%	78,133	8%	79,805	6%	82,260	3%			
Gross margin	6.0%	6.0%	0.0%	5.8%	0.2%	5.9%	0.1%	6.0%	0.0%			
Op. profit	36,669	52,720	-30%	27,570	33%	28,025	31%	30,905	19%			
OP margin	2.6%	2.8%	-0.2%	2.0%	0.6%	2.1%	0.5%	2.3%	0.4%			
Pretax Income	36,927	62,208	-41%	39,189	-6%	39,205	-6%	39,942	-8%			
Net income	29,450	44,395	-34%	28,162	5%	28,227	4%	28,297	4%			
EPS	2.12	3.20	-34%	2.03	5%	2.04	4%	2.05	4%			

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Source: Company Reports, Citi Research Estimates, Bloomberg Consensus

Figure 5. Hon Hai – Earnings Estimates Revision

(NT\$m)	2022E			2023E			2024E		
	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	6,315,676	6,257,023	1%	6,708,734	6,727,730	0%	7,126,726	-	-
Gross profit	396,736	392,879	1%	442,886	444,989	0%	479,415	-	-
Opex	214,439	222,924	-4%	233,870	241,424	-3%	252,374	-	-
Operating profit	182,297	169,955	7%	209,016	203,565	3%	227,041	-	-
Pre-tax profit	208,866	213,106	-2%	245,592	246,052	0%	263,545	-	-
Net income	152,212	152,579	0%	175,605	176,096	0%	188,564	-	-
EPS (NT\$)	10.98	11.01	0%	12.67	12.70	0%	13.60	-	-
Margins									
Gross margin	6.3%	6.3%	0.0%	6.6%	6.6%	0.0%	6.7%	-	-
Opex ratio	3.4%	3.6%	-0.2%	3.5%	3.6%	-0.1%	3.5%	-	-
Operating margin	2.9%	2.7%	0.2%	3.1%	3.0%	0.1%	3.2%	-	-
Net margin	2.4%	2.4%	0.0%	2.6%	2.6%	0.0%	2.6%	-	-

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Source: Citi Research Estimates

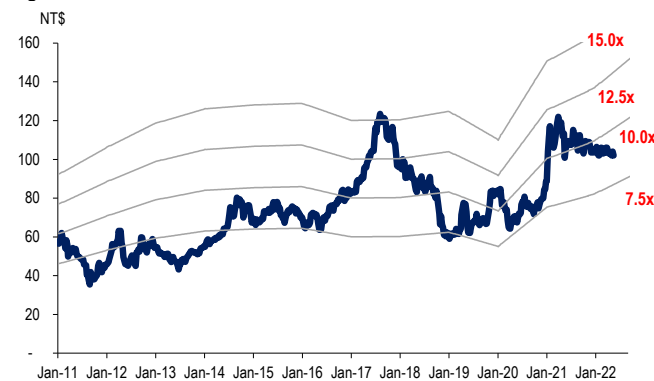
Figure 6. Hon Hai – Quarterly / Annual Earnings Forecast

NT\$m	1Q22E	2Q22E	3Q22E	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E	2021	2022E	2023E	2024E
Net Sales	1,407,553	1,407,449	1,567,509	1,933,165	1,365,505	1,452,165	1,696,907	2,194,158	5,994,174	6,315,676	6,708,734	7,126,726
Gross profit	84,766	86,323	101,607	124,040	84,986	94,735	115,520	147,644	362,127	396,736	442,886	479,415
OPEX	48,097	48,829	56,512	61,001	51,857	53,997	59,586	68,430	213,168	214,439	233,870	252,374
Operating profit	36,669	37,494	45,095	63,039	33,129	40,739	55,934	79,214	148,959	182,297	209,016	227,041
Total Non-OP	258	8,390	8,892	9,029	8,838	9,205	8,964	9,569	44,612	26,569	36,576	36,504
Pre-tax profit	36,927	45,883	53,987	72,068	41,967	49,943	64,898	88,783	193,572	208,866	245,592	263,545
Income tax	7,318	12,389	11,877	15,855	10,492	12,486	14,278	19,532	39,749	47,439	56,787	60,848
Net profit	29,450	30,742	39,411	52,609	28,957	34,461	47,376	64,812	139,320	152,212	175,605	188,564
EPS (NT\$)	2.12	2.22	2.84	3.79	2.09	2.49	3.42	4.68	10.05	10.98	12.67	13.60
Margins (%)												
Gross profit	6.0	6.1	6.5	6.4	6.2	6.5	6.8	6.7	6.0	6.3	6.6	6.7
OPEX to Sales Ratio	3.4	3.5	3.6	3.2	3.8	3.7	3.5	3.1	3.6	3.4	3.5	3.5
Operating profit	2.6	2.7	2.9	3.3	2.4	2.8	3.3	3.6	2.5	2.9	3.1	3.2
Pre-tax profit	2.6	3.3	3.4	3.7	3.1	3.4	3.8	4.0	3.2	3.3	3.7	3.7
Net profit	2.1	2.2	2.5	2.7	2.1	2.4	2.8	3.0	2.3	2.4	2.6	2.6
Y/Y(%)												
Net sales	4.5	4.1	11.5	2.3	(3.0)	3.2	8.3	13.5	11.9	5.4	6.2	6.2
Gross profit	8.5	5.9	14.7	8.9	0.3	9.7	13.7	19.0	19.5	9.6	11.6	8.2
Operating profit	33.0	15.4	24.6	19.6	(9.7)	8.7	24.0	25.7	34.4	22.4	14.7	8.6
Pre-tax profit	(5.8)	3.7	12.6	15.8	13.6	8.8	20.2	23.2	33.1	7.9	17.6	7.3
Net profit	4.6	3.2	6.6	18.5	(1.7)	12.1	20.2	23.2	36.9	9.3	15.4	7.4
EPS	4.6	3.2	6.6	18.5	(1.7)	12.1	20.2	23.2	36.9	9.3	15.4	7.4
Q/Q(%)												
Net sales	(25.5)	(0.0)	11.4	23.3	(29.4)	6.3	16.9	29.3				
Gross profit	(25.6)	1.8	17.7	22.1	(31.5)	11.5	21.9	27.8				
Operating profit	(30.4)	2.2	20.3	39.8	(47.4)	23.0	37.3	41.6				
Pre-tax profit	(40.6)	24.3	17.7	33.5	(41.8)	19.0	29.9	36.8				
Net profit	(33.7)	4.4	28.2	33.5	(45.0)	19.0	37.5	36.8				
EPS	(33.7)	4.4	28.2	33.5	(45.0)	19.0	37.5	36.8				

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Source: Company Reports, Citi Research Estimates

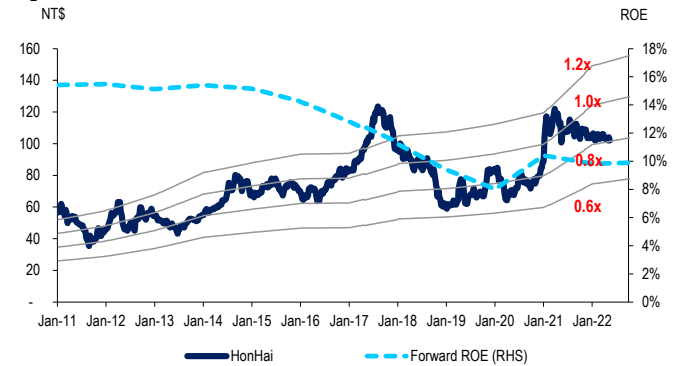
Figure 7. Hon Hai - Forward P/E Band



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Source: Company Reports, Citi Research Estimates, TEJ

Figure 8. Hon Hai - Forward P/B Band



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Source: Company Reports, Citi Research Estimates, TEJ

Bull/Bear: Hon Hai Precision (2317.TW)

Bull/Bear: Hon Hai Precision (2317.TW)

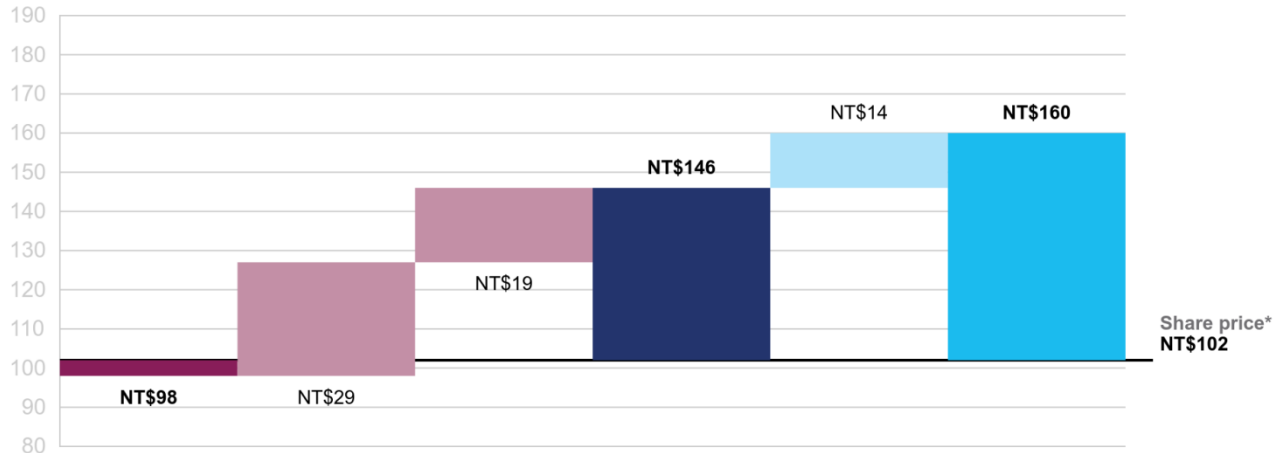


NT\$146 target price

43% expected share price return

Buy rating

61pp Bull/Bear Spread

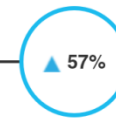
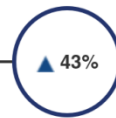


Weaker margins

Lower PE



Better margins



Share price*
NT\$102

Source: Citi Research

*Share price as of 12 May 2022 13:30



- OPM at 3.0-3.2% in 2022-23E for the group

NT\$160



- OPM at 2.9-3.1% in 2022-23E for the group
- Target PE at 13x

NT\$146



- OPM at 2.3% in 2022-23E for the group
- Target PE at 10x

NT\$98

Hon Hai Precision

Company description

Established in 1974, Hon Hai has become the largest EMS player in the world in terms of sales. Through its vertical integration model or "eCMMS" (e-enabled Components, Modules, Moves and Services), it provides components, modules and system assembly products to many global OEMs in the PC, communication and consumer sectors.

Investment strategy

We rate Hon Hai as Buy as we believe the company's margins will improve from 2021E, backed by a renewed focus on profitability, operational efficiency and new businesses development. We think there's more upside to go from current level, as the underlying driver is not just about product cycle, but also about fundamental transformation and new business opportunities.

Valuation

Our target price of NT\$146 is based on 13x 2H22-1H23E P/E, the higher-end of historical trading range since 2012. We believe our target PE is justified by the company's improving margins and profitability outlook, as well as new endeavors into EV, digital health and robotics. Hon Hai has been able to generate positive earnings streams, and thus we believe P/E valuation methodology is appropriate.

Risks

Downside risks that could impede the stock from reaching our target price include: 1) slower-than-expected iPhone demand; 2) intensified peer competition; 3) weaker-than-expected execution on new business progress; and 4) higher-than-expected impact of COVID-19.

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Appendix A-1

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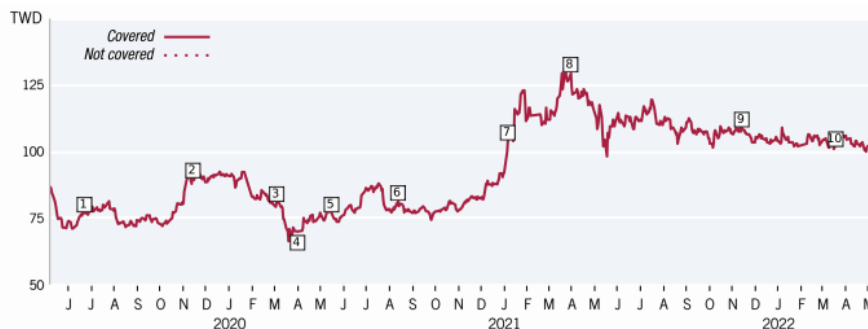
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IMPORTANT DISCLOSURES

Hon Hai Precision (2317.TW)

Ratings and Target Price History
Fundamental Research

Analyst: Carrie Liu



	Date	Rating	Target Price	Closing Price		Date	Rating	Target Price	Closing Price		Date	Rating	Target Price	Closing Price
1	21-Jun-19 08:58:24	3	*70.00	76.80	5	15-May-20 10:19:48	1	*98.00	77.10	9	14-Nov-21 22:42:23	1	*170.00	109.00
2	13-Nov-19 12:36:25	*1	*120.00	89.70	6	12-Aug-20 14:34:25	1	*110.00	81.40	10	16-Mar-22 12:04:55	1	*146.00	101.50
3	03-Mar-20 08:39:18	1	*118.00	81.00	7	05-Jan-21 09:45:14	1	*130.00	104.00					
4	30-Mar-20 10:46:57	1	*110.00	70.00	8	30-Mar-21 14:18:52	1	*175.00	129.50					

*Indicates Change

Rating/target price changes above reflect Eastern Time

Hon Hai Precision (2317.TW)

Catalyst Watch Research

Analyst: Carrie Liu



*Indicates Change

Rating/target price changes above reflect Eastern Time

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