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Taiwan Technology

Reuters 2317.TW
Bloomberg 2317 TT

Priced on 12 May 2022
Taiwan Wtd @ 15,616.7

12M hi/lo NT\$119.50/98.20

12M price target NT\$135.00
±% potential +32%

Shares in issue 13,863.0m
Free float (est.) 77.0%

Market cap US\$48.5bn

3M ADV US\$93.9m

Foreign s'holding 47.6%

Major shareholders
Terry Gou 12.4%

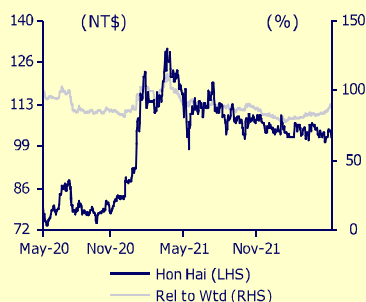
Blended ESG Score (%)*

Overall	70.3
Country average	72.0
GEM sector average	73.9

*Click to visit company page on [clsa.com](https://www.clsa.com) for details

Stock performance (%)

	1M	3M	12M
Absolute	0.0	(3.8)	0.0
Relative	8.8	12.8	1.8
Abs (US\$)	(2.4)	(9.8)	(6.1)



Source: Bloomberg

The king continues to reign

Supply chain strength warrants stable outlook amidst uncertainties

While 1Q earnings beat on Opex efficiencies, an intact 2Q outlook and raised full-year PC guidance suggest Hon Hai's supply-chain leadership matters amidst China lockdowns and soft consumer-electronics demand. The company continues to execute on its EV strategy with an expanded clientele and geographical presence, with an unchanged 5% market share/10% GM target in 2025, which is also evidence of its competitive edge in the ICT market that is replicable to the EV space. We cut our TP from NT\$145 to NT\$135 on a lower PE multiple; retain BUY.

1Q OP beat on Opex control

While 1Q revenue came in 3% above CT/consensus forecasts, GM of 6.0% was flat QoQ and in line due to stronger growth of computing products. Stringent Opex control led to an Opex ratio of 3.4%, 20/30bps below CL/consensus, and Op profit beat CL/consensus by 3%/19% respectively. As such, 1Q earnings beat consensus by 4% but were 7% below our estimates due to lower non-Op income.

2Q outlook intact with minor computing product upside for FY22

Despite ongoing supply-chain hiccups, management sees no change in 2Q visibility and guides for revenue to be flattish QoQ/YoY with stronger momentum for computing products. The company also maintains a full-year outlook of flat YoY growth yet ups its computing products outlook on strong desktop PC demand alongside share gain in notebook/tablets. Management expects YoY GM improvement in 1H/2022 on a better product mix and improving efficiencies.

Steady progress in EV business

The company continues to make inroads into monetising on EV opportunities and maintains a 5% market share/10% blended GM target in 2025, with market share and clientele expansion underway. We view the company's priority in full vehicle assembly as a quick path to strong revenue growth, while increasing involvement in key components like software/ADAS/batteries should help improve EV margins, for long-term blended margin expansion alongside a better mix in legacy businesses.

Lower TP to NT\$135 on reduced PE multiple; retain BUY

We lower 22CT earnings by 2% to reflect a lower GPM assumption and raise 23CT earnings by 2%. We cut our TP from NT\$145 to NT\$135 as we move our target PE from 12x to 11x 23CT EPS to reflect macro headwinds. We retain a BUY rating given the company's upbeat outlook amidst supply chain challenges/weak consumer demand and solid execution on secular EV opportunities.

Financials

Year to 31 December	20A	21A	22CT	23CT	24CT
Revenue (NT\$m)	5,358,023	5,994,174	6,331,102	6,833,964	7,408,799
Rev forecast change (%)	-	-	3.7	2.7	-
Net profit (NT\$m)	101,795	139,320	143,906	169,240	194,140
NP forecast change (%)	-	-	(1.5)	2.0	-
EPS (NT\$)	7.34	10.05	10.38	12.21	14.00
CL/consensus (20) (EPS%)	-	-	98	104	113
EPS growth (% YoY)	(11.7)	36.9	3.3	17.6	14.7
PE (x)	13.9	10.1	9.8	8.4	7.3
Dividend yield (%)	3.9	5.4	5.5	6.5	7.5
ROE (%)	7.1	9.1	8.9	9.9	10.7
Net cash per share (NT\$)	32.97	12.61	15.91	17.98	21.39

Source: www.clsa.com

Financials at a glance

Year to 31 December	2020A	2021A	2022CT	(% YoY)	2023CT	2024CT
Profit & Loss (NT\$m)						
Revenue	5,358,023	5,994,174	6,331,102	5.6	6,833,964	7,408,799
Cogs (ex-D&A)	(4,989,991)	(5,556,566)	(5,864,768)		(6,307,460)	(6,817,070)
Gross Profit (ex-D&A)	368,032	437,608	466,334	6.6	526,504	591,729
SG&A and other expenses	(192,091)	(213,168)	(224,584)		(249,440)	(270,421)
Op Ebitda	175,941	224,441	241,750	7.7	277,065	321,308
Depreciation/amortisation	(65,114)	(75,481)	(76,416)		(82,892)	(89,750)
Op Ebit	110,827	148,959	165,334	11	194,173	231,558
Net interest inc/(exp)	7,617	10,498	(13,311)		(23,306)	(25,764)
Other non-Op items	27,027	34,115	45,368	33	65,600	65,600
Profit before tax	145,472	193,572	197,391	2	236,467	271,394
Taxation	(31,147)	(39,749)	(47,301)		(58,319)	(67,035)
Profit after tax	114,326	153,823	150,089	(2.4)	178,148	204,358
Minority interest	(12,531)	(14,503)	(6,183)		(8,907)	(10,218)
Net profit	101,795	139,320	143,906	3.3	169,240	194,140
Adjusted profit	101,795	139,320	143,906	3.3	169,240	194,140
Cashflow (NT\$m)						
Operating profit	110,827	148,959	165,334	11	194,173	231,558
Depreciation/amortisation	65,114	75,481	76,416	1.2	82,892	89,750
Working capital changes	211,210	(298,423)	545		(24,990)	(25,005)
Other items	(9,527)	(24,230)	(59,607)		(74,313)	(85,987)
Net operating cashflow	377,624	(98,212)	182,688		177,762	210,316
Capital expenditure	(65,500)	(92,296)	(75,000)		(75,000)	(75,000)
Free cashflow	312,124	(190,508)	107,688		102,762	135,316
M&A/Others	100,086	213	(7,571)		(5,929)	(6,362)
Net investing cashflow	34,586	(92,083)	(82,571)		(80,929)	(81,362)
Increase in loans	96,662	112,599	74,222	(34.1)	68,340	67,133
Dividends	(60,910)	(58,745)	(78,392)		(92,192)	(105,757)
Net equity raised/other	(60,870)	(29,572)	0		-	-
Net financing cashflow	(25,118)	24,281	(4,170)		(23,853)	(38,623)
Incr/(decr) in net cash	387,092	(166,014)	95,947		72,981	90,331
Exch rate movements	(12,162)	(7,363)	24,018		24,018	24,018
Balance sheet (NT\$m)						
Cash & equivalents	1,232,794	1,059,417	1,179,382	11.3	1,276,381	1,390,730
Accounts receivable	1,003,826	1,222,803	1,344,383	9.9	1,320,144	1,285,982
Other current assets	629,365	734,140	1,090,953	48.6	1,201,686	1,309,865
Fixed assets	287,092	310,107	315,713	1.8	313,813	305,420
Investments	395,771	450,043	450,043	0	450,043	450,043
Intangible assets	47,130	45,353	45,902	1.2	45,839	45,843
Other non-current assets	78,298	87,015	87,015	0	87,015	87,015
Total assets	3,674,276	3,908,878	4,513,391	15.5	4,694,921	4,874,899
Short-term debt	503,372	584,959	668,919	14.4	745,591	820,953
Accounts payable	1,065,593	1,076,178	1,521,964	41.4	1,533,468	1,532,481
Other current liabs	308,191	312,544	307,517	(1.6)	308,137	309,567
Long-term debt/CBs	272,387	299,599	289,860	(3.3)	281,528	273,300
Provisions/other LT liabs	50,587	62,338	62,338	0	62,338	62,338
Shareholder funds	1,474,146	1,573,260	1,662,793	5.7	1,763,859	1,876,261
Minorities/other equity	0	0	0		0	0
Total liabs & equity	3,674,276	3,908,878	4,513,391	15.5	4,694,921	4,874,899
Ratio analysis						
Revenue growth (% YoY)	0.3	11.9	5.6		7.9	8.4
Ebitda margin (%)	3.3	3.7	3.8		4.1	4.3
Ebit margin (%)	2.1	2.5	2.6		2.8	3.1
Net profit growth (%)	(11.7)	36.9	3.3		17.6	14.7
Op cashflow growth (% YoY)	52.3	(126.0)	nm		(2.7)	18.3
Capex/sales (%)	1.2	1.5	1.2		1.1	1.0
Net debt/equity (%)	(31.0)	(11.1)	(13.3)		(14.1)	(15.8)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	7.1	9.1	8.9		9.9	10.7
ROIC (%)	11.0	14.1	12.2		13.4	15.0

Source: CLST

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Figure 1

1Q22 results										
(NT\$bn)	1Q21	4Q21	1Q22	QoQ	YoY	1Q22CT	Act/CT	1Q22 Con	Act/Con	
Sales	1,347	1,890	1,408	(26%)	4%	1,361	3%	1,371	3%	
Gross profit	78	114	85	(26%)	8%	84	1%	82	3%	
Opex	51	61	48	(21%)	(5%)	49	(1%)	51	(6%)	
Operating profit	28	53	37	(30%)	33%	35	3%	31	19%	
Non-OP	12	9	0	(97%)	(98%)	8	(97%)	9	(97%)	
Pretax profit	39	62	37	(41%)	(6%)	43	(14%)	40	(8%)	
Tax expense	8	11	7	(32%)	(9%)	10	(25%)	12	(36%)	
Net profit	28	44	29	(34%)	5%	32	(7%)	28	4%	
EPS (NT\$)	2.03	3.20	2.12	(34%)	4%	2.27	(7%)	2.05	3%	
Margins										
Gross margin	5.8%	6.0%	6.0%			6.2%		6.0%		
Opex/sales	3.8%	3.2%	3.4%			3.6%		3.7%		
OP margin	2.0%	2.8%	2.6%			2.6%		2.3%		
Non-op/sales	0.9%	0.5%	0.0%			0.6%		0.7%		
Tax rate	20.9%	17.7%	20.2%			23.0%		29.2%		
Net margin	2.1%	2.3%	2.1%			2.3%		2.1%		

Source: CLST, Hon Hai

Figure 2

Earnings revision																
(NT\$bn)	2Q22CT			3Q22CT			4Q22CT			2022CT			2023CT			
	old	new	% ch	old	new	% ch	old	new	% ch	old	new	% ch	old	new	% ch	
Sales	1,351	1,418	5%	1,462	1,503	3%	1,933	2,002	4%	6,106	6,331	4%	6,654	6,834	3%	
Gross profit	87	87	(1%)	95	95	0%	123	123	0%	389	390	0%	442	444	0%	
Opex	50	52	5%	52	53	2%	69	71	4%	219	225	3%	243	249	3%	
Operating profit	37	34	(8%)	43	42	(2%)	54	52	(4%)	170	165	(3%)	199	194	(2%)	
Pretax profit	45	44	(2%)	51	52	3%	65	64	(2%)	204	197	(3%)	232	236	2%	
Tax expense	13	13	(2%)	12	12	3%	15	15	(2%)	50	47	(5%)	57	58	2%	
Net profit	30	29	(2%)	37	38	3%	48	47	(2%)	146	144	(2%)	166	169	2%	
EPS (NT\$)	2.15	2.11	(2%)	2.66	2.76	3%	3.46	3.39	(2%)	10.54	10.38	(2%)	11.97	12.21	2%	
Margin																
Gross margin	6.4%	6.1%		6.5%	6.4%		6.4%	6.2%		6.4%	6.2%		6.6%	6.5%		
Operating margin	2.8%	2.4%		2.9%	2.8%		2.8%	2.6%		2.8%	2.6%		3.0%	2.8%		
Tax rate	30.0%	30.0%		23.0%	23.0%		23.0%	23.0%		24.5%	24.0%		24.6%	24.7%		
Net margin	2.2%	2.1%		2.5%	2.5%		2.5%	2.3%		2.4%	2.3%		2.5%	2.5%		

Source: CLST

Figure 3

Target price change table				
	Target PE (x)	Valuation period	12-month rolling EPS (NT\$)	Target price (NT\$)
Old	12	23CT	11.97	145
New	11	23CT	12.21	135

Source: CLST

Figure 4

Quarterly P&L													
(NT\$bn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22CT	3Q22CT	4Q22CT	2020	2021	2022CT	2023CT	2024CT
Sales	1,347	1,351	1,406	1,890	1,408	1,418	1,503	2,002	5,358	5,994	6,331	6,834	7,409
Gross profit	78	82	89	114	85	87	95	123	303	362	390	444	502
Opex	51	49	52	61	48	52	53	71	192	213	225	249	270
Operating profit	28	32	36	53	37	34	42	52	111	149	165	194	232
Non-OP	12	12	12	9	0	9	10	12	35	45	32	42	40
Pretax profit	39	44	48	62	37	44	52	64	145	194	197	236	271
Tax expense	8	12	9	11	7	13	12	15	31	40	47	58	67
Net profit	28	30	37	44	29	29	38	47	102	139	144	169	194
EPS (NT\$)	2.03	2.15	2.67	3.20	2.12	2.11	2.76	3.39	7.34	10.05	10.38	12.21	14.00
Growth													
Sales QoQ	(33%)	0%	4%	34%	(26%)	1%	6%	33%					
Sales YoY	45%	20%	9%	(6%)	4%	5%	7%	6%	0%	12%	6%	8%	8%
EPS QoQ	(39%)	6%	24%	20%	(34%)	(1%)	31%	23%					
EPS YoY	1251%	30%	20%	(3%)	5%	(2%)	3%	6%	(12%)	37%	3%	18%	15%
Margin													
Gross margin	5.8%	6.0%	6.3%	6.0%	6.0%	6.1%	6.4%	6.2%	5.7%	6.0%	6.2%	6.5%	6.8%
Opex	3.8%	3.6%	3.7%	3.2%	3.4%	3.7%	3.6%	3.6%	3.6%	3.6%	3.5%	3.7%	3.7%
OP margin	2.0%	2.4%	2.6%	2.8%	2.6%	2.4%	2.8%	2.6%	2.1%	2.5%	2.6%	2.8%	3.1%
Non-OP	0.9%	0.9%	0.8%	0.5%	0.0%	0.7%	0.7%	0.6%	0.6%	0.7%	0.5%	0.6%	0.5%
Net margin	2.1%	2.2%	2.6%	2.3%	2.1%	2.1%	2.5%	2.3%	1.9%	2.3%	2.3%	2.5%	2.6%

Source: CLST, Hon Hai

Hon Hai 1Q22 earnings call notes

1Q22 results

- ❑ 1Q revenue NT\$1.4tn, up 4.5% YoY, with 6.02% GM up YoY due to higher revenue and stronger USD;
- ❑ OPM 2.61% up YoY due to higher GM and Opex control;
- ❑ Opex in 1Q was well controlled, result of improved efficiency and will only improve going forward
- ❑ Net margin up due to revaluations and dividend down YoY
- ❑ Net cash was down 21% due to automation investments, new capacity investment, and 3+3 strategy
- ❑ AR days up 8 days YoY due to expedited payment by clients
- ❑ NT\$5.2 DPS, 52% payout ratio passed by BOD, higher than 40% commitment

Inventory level

- ❑ Inventory up 5 days to 50 days due to logistics constraints and preparation for clients; expects to remain high going forward
- ❑ Composition
 - 44% raw material
 - 17% WIP
 - 34% finished goods

2Q22 outlook

- ❑ Overall flattish QoQ/ YoY expected
- ❑ Consumer electronics: down due to high base and transition period to new models
- ❑ Enterprise: CSP client demand is strong
 - Most bullish on this segment in 2022
- ❑ Computing products still leveraging on supply chain strength for significant growth in 2Q
- ❑ Component shipments impacted by Covid but Hon Hai is gaining share for more significant growth

2022 outlook

- ❑ QoQ/YoY flat
 - April revenue took some hit but order visibility remains strong (better than what it saw in March)
- ❑ Order visibility has increased vs last quarter
 - PC to grow higher than expected, likely due to market share gain and faster ramp-up of its Mexico factory, which produces desktop, tablet and server
- ❑ Profitability will come from digital transformation, 1.0, 2.0

EV strategy

- ❑ Expanding client base; will also work on getting new US/EU clients. Time to market and time to cost core value offered
- ❑ US production base in Ohio completed today
- ❑ Expedite mass production and commercialisation

Semiconductor strategy

- ❑ Vertical integration to produce EV chip
 - Has invested in upstream SiC fabless company this year

- ❑ LiDAR chip integrated with software, with competitive leadership in cost structure and standards
- ❑ More capacity through partnership or acquisition expected this year

China lockdown impact

- ❑ Believes future closed loop operation will have limited impact on its operations
- ❑ Led to rising costs and Opex. Lead time increased; matched set issue also resulted in higher inventory
- ❑ Thinks that it can gain more market share as other competitors saw larger impact
- ❑ Rising material costs may become new norm in next six months

Macro uncertainty

- ❑ Inflationary environment will have impact on end demand, especially on lower-end products. Most of Hon Hai's products are mid/high end so currently the impact is relatively small. Low-end product demand may potentially deteriorate further.

GPM

- ❑ Determining factors: product mix, FX, rising costs due to inflation, depreciation and other costs
- ❑ 2Q GPM is expected to be slightly better than 1Q's 6.02%
- ❑ 1H GM should be better than 1H21; full year should be better than last year

Lordstown

- ❑ Endurance components mostly procured by Lordstown, with Hon Hai providing some electronics modules; slated for mass production in 2H22

EV

- ❑ Model T: Targets 100 units of E-bus shipments this year
- ❑ PTT JV to start construction in July
- ❑ Fisker: enter SOP in 2024 and will be the main products for Ohio factory
- ❑ Model C shipment target: 5-10k in 2023
- ❑ Strategic priority:
 - Whole car assembly (software and EEA) > modules (electronics) > key components (battery, motor, semiconductors)
- ❑ Evaluation metrics
 - Market share, targeting 5% by 2025
 - Profitability: with 40% of key components made by Hon Hai, it targets 10% GPM in 2025
 - Shipments: 500-750k annual shipments by 2025 and NT\$1tn revenue
- ❑ Components
 - Power discrete modules, EEA control, software have relatively faster progress
 - Battery: will disclose more on progress next quarter

LiDAR

- ❑ Target range is 200m
- ❑ Will demo the solution by year-end
- ❑ In discussions with two clients about adoption

CSP

- ❑ Believes growth is thanks to its technology leadership and design capability, in addition to its scale. Hon Hai thinks its market share will continue to grow
- ❑ Server growth will also be driven by EV

India

- ❑ Diversified/localised supply chains is the trend. Many industries have started to set up production hubs in India
- ❑ What to produce in India? Semiconductors, localised products

Battery

- ❑ Will collaborate with experienced vendors and strategic partners for material and battery cell
 - Invested in solid state battery and Na battery companies
- ❑ Will self-manufacture battery modules as this is a key component for EV
- ❑ Thinks that battery will see great progress in 2025-30

Figure 5

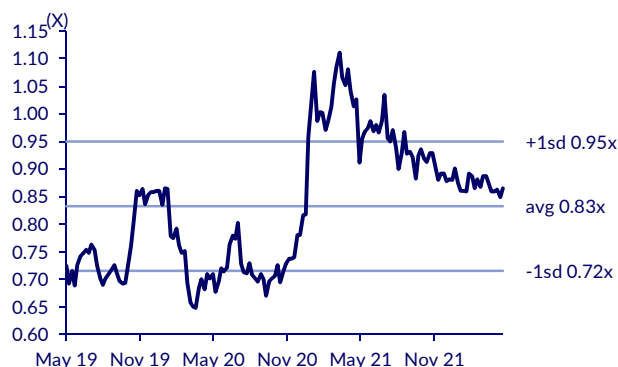
PE ratio



Source: CLST, Bloomberg

Figure 6

PB ratio



Source: CLST, Bloomberg

Valuation details

We base our target price on 11x forward EPS, one standard deviation above the three-year average forward PE as EV business's contribution to earnings/margins upside may kick in slower than our previous expectation. Nonetheless, we believe a rerating is supported by: an improving device market outlook and the company's solid industry position, and execution on new business opportunities that could further improve the overall earnings profile.

Investment risks

For the Apple segment, risks include market-share loss, pricing and margin pressure, higher material and labour costs, and a slowdown in end-demand. For the enterprise hardware segment, risks include a slowdown in enterprise demand, market-share loss, margin compression on lower volume, increased competition, higher material and labour costs, product-mix deterioration with low-ASP increasing, and currency risks. There is overall risk related to a demand slowdown due to Covid-19. Upside potential comes from higher-than-expected iPhone or iPad volume, margin expansion, higher ASPs, and faster-than-expected diversification in automotive and transportation revenue, automation and robotics revenue, and branded consumer electronics products.

Detailed financials

Profit & Loss (NT\$m)

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Revenue	5,293,803	5,342,811	5,358,023	5,994,174	6,331,102	6,833,964	7,408,799
Cogs (ex-D&A)	(4,901,847)	(4,959,934)	(4,989,991)	(5,556,566)	(5,864,768)	(6,307,460)	(6,817,070)
Gross Profit (ex-D&A)	391,956	382,877	368,032	437,608	466,334	526,504	591,729
Research & development costs	(84,430)	(91,548)	(94,111)	(105,069)	(102,310)	(116,177)	(125,950)
Selling & marketing expenses	(32,690)	(30,129)	(27,244)	(30,506)	(32,221)	(37,587)	(40,748)
Other SG&A	(78,763)	(79,294)	(70,737)	(77,593)	(90,054)	(95,675)	(103,723)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	196,073	181,906	175,941	224,441	241,750	277,065	321,308
Depreciation/amortisation	(59,926)	(67,009)	(65,114)	(75,481)	(76,416)	(82,892)	(89,750)
Op Ebit	136,147	114,897	110,827	148,959	165,334	194,173	231,558
Interest income	60,401	75,819	47,934	32,456	29,722	30,929	32,185
Interest expense	(55,545)	(66,601)	(40,317)	(21,958)	(43,033)	(54,235)	(57,949)
Net interest inc/(exp)	4,856	9,219	7,617	10,498	(13,311)	(23,306)	(25,764)
Associates/investments	33,644	38,924	27,078	34,130	33,152	50,000	50,000
Forex/other income	(9,049)	(5,347)	(2,545)	(3,671)	13,000	12,000	12,000
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	9,778	6,577	3,454	3,997	3,600	3,600	3,600
Asset revaluation/Exceptional items	(5,125)	(391)	(959)	(341)	(4,384)	-	-
Profit before tax	170,251	163,878	145,472	193,572	197,391	236,467	271,394
Taxation	(40,416)	(31,693)	(31,147)	(39,749)	(47,301)	(58,319)	(67,035)
Profit after tax	129,835	132,185	114,326	153,823	150,089	178,148	204,358
Preference dividends	-	-	-	-	-	-	-
Profit for period	129,835	132,185	114,326	153,823	150,089	178,148	204,358
Minority interest	(770)	(16,876)	(12,531)	(14,503)	(6,183)	(8,907)	(10,218)
Net profit	129,065	115,309	101,795	139,320	143,906	169,240	194,140
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	129,065	115,309	101,795	139,320	143,906	169,240	194,140
Dividends	(34,657)	(57,300)	(60,910)	(58,745)	(78,392)	(92,192)	(105,757)
Retained profit	94,408	58,008	40,884	80,576	65,514	77,048	88,384
Adjusted profit	129,065	115,309	101,795	139,320	143,906	169,240	194,140
EPS (NT\$)	9.3	8.3	7.3	10.0	10.4	12.2	14.0
Adj EPS [pre excep] (NT\$)	9.3	8.3	7.3	10.0	10.4	12.2	14.0
Core EPS (NT\$)	9.3	8.3	7.3	10.0	10.4	12.2	14.0
DPS (NT\$)	4.0	4.2	4.0	5.5	5.7	6.7	7.6

Profit & loss ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Growth (%)							
Revenue growth (% YoY)	12.5	0.9	0.3	11.9	5.6	7.9	8.4
Ebitda growth (% YoY)	13.0	(7.2)	(3.3)	27.6	7.7	14.6	16.0
Ebit growth (% YoY)	20.9	(15.6)	(3.5)	34.4	11.0	17.4	19.3
Net profit growth (%)	(7.0)	(10.7)	(11.7)	36.9	3.3	17.6	14.7
EPS growth (% YoY)	(4.2)	(10.7)	(11.7)	36.9	3.3	17.6	14.7
Adj EPS growth (% YoY)	(4.2)	(10.7)	(11.7)	36.9	3.3	17.6	14.7
DPS growth (% YoY)	100.0	5.0	(4.8)	36.9	3.3	17.6	14.7
Core EPS growth (% YoY)	(4.2)	(10.7)	(11.7)	36.9	3.3	17.6	14.7
Margins (%)							
Gross margin (%)	7.4	7.2	6.9	7.3	7.4	7.7	8.0
Ebitda margin (%)	3.7	3.4	3.3	3.7	3.8	4.1	4.3
Ebit margin (%)	2.6	2.2	2.1	2.5	2.6	2.8	3.1
Net profit margin (%)	2.4	2.2	1.9	2.3	2.3	2.5	2.6
Core profit margin	2.4	2.2	1.9	2.3	2.3	2.5	2.6
Op cashflow margin	(0.8)	4.6	7.0	(1.6)	2.9	2.6	2.8
Returns (%)							
ROE (%)	10.3	8.4	7.1	9.1	8.9	9.9	10.7
ROA (%)	3.1	2.8	2.5	3.1	3.0	3.2	3.6
ROIC (%)	10.8	9.6	11.0	14.1	12.2	13.4	15.0
ROCE (%)	11.0	9.2	10.1	12.5	11.8	13.3	15.1
Other key ratios (%)							
Effective tax rate (%)	23.7	19.3	21.4	20.5	24.0	24.7	24.7
Ebitda/net int exp (x)	-	-	-	-	18.2	11.9	12.5
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	43.0	50.5	54.5	54.5	54.5	54.5	54.5

Source: CLST

Balance sheet (NT\$m)

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Cash & equivalents	788,662	857,864	1,232,794	1,059,417	1,179,382	1,276,381	1,390,730
Accounts receivable	1,187,871	1,121,973	1,003,826	1,222,803	1,344,383	1,320,144	1,285,982
Inventories	625,026	515,772	582,114	672,145	995,806	1,056,540	1,114,719
Other current assets	85,327	58,188	47,251	61,994	95,146	145,146	195,146
Current assets	2,686,886	2,553,797	2,865,985	3,016,360	3,614,718	3,798,211	3,986,577
Fixed assets	277,860	287,523	287,092	310,107	315,713	313,813	305,420
Investments	336,833	355,750	395,771	450,043	450,043	450,043	450,043
Goodwill	15,051	15,047	14,917	16,186	16,186	16,186	16,186
Other intangible assets	18,786	29,047	32,213	29,167	29,716	29,653	29,657
Other non-current assets	45,939	79,778	78,298	87,015	87,015	87,015	87,015
Total assets	3,381,355	3,320,942	3,674,276	3,908,878	4,513,391	4,694,921	4,874,899
Short term loans/OD	543,633	433,966	503,372	584,959	668,919	745,591	820,953
Accounts payable	948,023	906,188	1,065,593	1,076,178	1,521,964	1,533,468	1,532,481
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	0	0	0	0	0	0	0
Other current liabs	298,922	286,779	308,191	312,544	307,517	308,137	309,567
Current liabilities	1,790,578	1,626,933	1,877,155	1,973,681	2,498,400	2,587,196	2,663,001
Long-term debt/leases/other	236,002	247,610	272,387	299,599	289,860	281,528	273,300
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	22,341	46,773	50,587	62,338	62,338	62,338	62,338
Total liabilities	2,048,922	1,921,316	2,200,129	2,335,618	2,850,598	2,931,063	2,998,639
Share capital	138,630	138,630	138,630	138,630	138,630	138,630	138,630
Retained earnings	779,410	794,615	779,836	871,193	922,317	982,441	1,051,411
Reserves/others	414,394	466,380	555,680	563,437	601,846	642,788	686,220
Shareholder funds	1,332,434	1,399,625	1,474,146	1,573,260	1,662,793	1,763,859	1,876,261
Minorities/other equity	0	0	0	0	0	0	0
Total equity	1,332,434	1,399,625	1,474,146	1,573,260	1,662,793	1,763,859	1,876,261
Total liabs & equity	3,381,355	3,320,942	3,674,276	3,908,878	4,513,391	4,694,921	4,874,899
Total debt	779,635	681,576	775,759	884,557	958,779	1,027,119	1,094,252
Net debt	(9,027)	(176,288)	(457,035)	(174,860)	(220,603)	(249,262)	(296,477)
Adjusted EV	1,043,747	853,572	525,333	757,831	710,517	681,692	634,447
BVPS (NT\$)	96.1	101.0	106.3	113.5	119.9	127.2	135.3

Balance sheet ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Key ratios							
Current ratio (x)	1.5	1.6	1.5	1.5	1.4	1.5	1.5
Growth in total assets (% YoY)	(0.8)	(1.8)	10.6	6.4	15.5	4.0	3.8
Growth in capital employed (% YoY)	11.1	(7.7)	(17.0)	38.2	3.2	5.1	4.4
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	(19.4)	2.7	2.1	(9.0)	5.2	5.8	5.2
Gross debt to Ebitda (x)	4.0	3.7	4.4	3.9	4.0	3.7	3.4
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(0.7)	(12.6)	(31.0)	(11.1)	(13.3)	(14.1)	(15.8)
Gross debt/equity (%)	58.5	48.7	52.6	56.2	57.7	58.2	58.3
Interest cover (x)	3.5	2.9	3.9	8.3	4.5	4.2	4.6
Debt cover (x)	(0.1)	0.4	0.5	(0.1)	0.2	0.2	0.2
Net cash per share (NT\$)	0.7	12.7	33.0	12.6	15.9	18.0	21.4
Working capital analysis							
Inventory days	43.6	41.4	39.6	40.6	51.2	58.6	57.4
Debtor days	88.4	78.9	72.4	67.8	74.0	71.2	64.2
Creditor days	79.6	67.3	71.2	69.4	79.8	87.3	81.0
Working capital/Sales (%)	12.3	9.4	4.8	9.5	9.6	10.0	10.2
Capital employed analysis							
Sales/Capital employed (%)	406.0	444.0	536.6	434.3	444.6	456.7	474.4
EV/Capital employed (%)	80.1	70.9	52.6	54.9	49.9	45.6	40.6
Working capital/Capital employed (%)	50.0	41.8	26.0	41.2	42.5	45.5	48.3
Fixed capital/Capital employed (%)	21.3	23.9	28.8	22.5	22.2	21.0	19.6
Other ratios (%)							
PB (x)	1.1	1.0	1.0	0.9	0.9	0.8	0.8
EV/Ebitda (x)	5.3	4.7	3.0	3.4	2.9	2.5	2.0
EV/OCF (x)	(26.0)	3.4	1.4	(7.7)	3.9	3.8	3.0
EV/FCF (x)	(9.9)	5.0	1.7	(4.0)	6.6	6.6	4.7
EV/Sales (x)	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Capex/depreciation (%)	112.6	119.0	107.5	131.6	105.7	97.3	89.9

Source: CLST

Cashflow (NT\$m)

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Operating profit	136,147	114,897	110,827	148,959	165,334	194,173	231,558
Operating adjustments	(7,082)	412	(9,033)	(9,639)	(21,428)	(24,933)	(37,418)
Depreciation/amortisation	59,926	67,009	65,114	75,481	76,416	82,892	89,750
Working capital changes	(5,691)	132,103	211,210	(298,423)	545	(24,990)	(25,005)
Interest paid / other financial expenses	(31,978)	(37,054)	26,444	31,191	(33,152)	(50,000)	(50,000)
Tax paid	-	-	-	-	-	-	-
Other non-cash operating items	(191,478)	(29,349)	(26,938)	(45,782)	(5,027)	620	1,430
Net operating cashflow	(40,156)	248,018	377,624	(98,212)	182,688	177,762	210,316
Capital expenditure	(65,533)	(77,521)	(65,500)	(92,296)	(75,000)	(75,000)	(75,000)
Free cashflow	(105,689)	170,496	312,124	(190,508)	107,688	102,762	135,316
Acq/inv/disposals	29,697	26,429	5,669	(39,142)	-	-	-
Int, invt & associate div	107,268	121,677	94,417	39,355	(7,571)	(5,929)	(6,362)
Net investing cashflow	71,431	70,584	34,586	(92,083)	(82,571)	(80,929)	(81,362)
Increase in loans	112,848	(97,616)	96,662	112,599	74,222	68,340	67,133
Dividends	(34,657)	(57,300)	(60,910)	(58,745)	(78,392)	(92,192)	(105,757)
Net equity raised/others	40,779	(63,179)	(60,870)	(29,572)	0	-	-
Net financing cashflow	118,970	(218,095)	(25,118)	24,281	(4,170)	(23,853)	(38,623)
Incr/(decr) in net cash	150,245	100,507	387,092	(166,014)	95,947	72,981	90,331
Exch rate movements	(4,079)	(31,305)	(12,162)	(7,363)	24,018	24,018	24,018
Opening cash	642,496	788,662	857,864	1,232,794	1,059,417	1,179,382	1,276,381
Closing cash	788,662	857,864	1,232,794	1,059,417	1,179,382	1,276,381	1,390,730
OCF PS (NT\$)	(2.9)	17.9	27.2	(7.1)	13.2	12.8	15.2
FCF PS (NT\$)	(7.6)	12.3	22.5	(13.7)	7.8	7.4	9.8

Cashflow ratio analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Growth (%)							
Op cashflow growth (% YoY)	nm	nm	52.3	(126.0)	nm	(2.7)	18.3
FCF growth (% YoY)	-	-	83.1	(161.0)	-	(4.6)	31.7
Capex growth (%)	8.5	18.3	(15.5)	40.9	(18.7)	0.0	0.0
Other key ratios (%)							
Capex/sales (%)	1.2	1.5	1.2	1.5	1.2	1.1	1.0
Capex/op cashflow (%)	(163.2)	31.3	17.3	(94.0)	41.1	42.2	35.7
Operating cashflow payout ratio (%)	-	23.5	14.7	-	42.9	51.9	50.3
Cashflow payout ratio (%)	-	23.1	16.1	-	42.9	51.9	50.3
Free cashflow payout ratio (%)	-	33.6	19.5	-	72.8	89.7	78.2

DuPont analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Ebit margin (%)	2.6	2.2	2.1	2.5	2.6	2.8	3.1
Asset turnover (x)	1.6	1.6	1.5	1.6	1.5	1.5	1.5
Interest burden (x)	1.3	1.4	1.3	1.3	1.2	1.2	1.2
Tax burden (x)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Return on assets (%)	3.1	2.8	2.5	3.1	3.0	3.2	3.6
Leverage (x)	2.7	2.5	2.4	2.5	2.6	2.7	2.6
ROE (%)	10.3	8.4	7.1	9.1	8.9	9.9	10.7

EVA® analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CT	2023CT	2024CT
Ebit adj for tax	103,827	92,677	87,098	118,372	125,714	146,284	174,362
Average invested capital	962,969	961,638	793,144	841,312	1,032,590	1,090,689	1,159,485
ROIC (%)	10.8	9.6	11.0	14.1	12.2	13.4	15.0
Cost of equity (%)	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Cost of debt (adj for tax)	3.8	4.0	3.9	4.0	3.8	3.8	3.8
Weighted average cost of capital (%)	6.6	6.6	6.6	6.6	6.6	6.6	6.6
EVA/IC (%)	4.2	3.0	4.4	7.5	5.6	6.8	8.5
EVA (NT\$m)	40,491	29,075	34,778	62,812	57,818	74,632	98,194

Source: CLST



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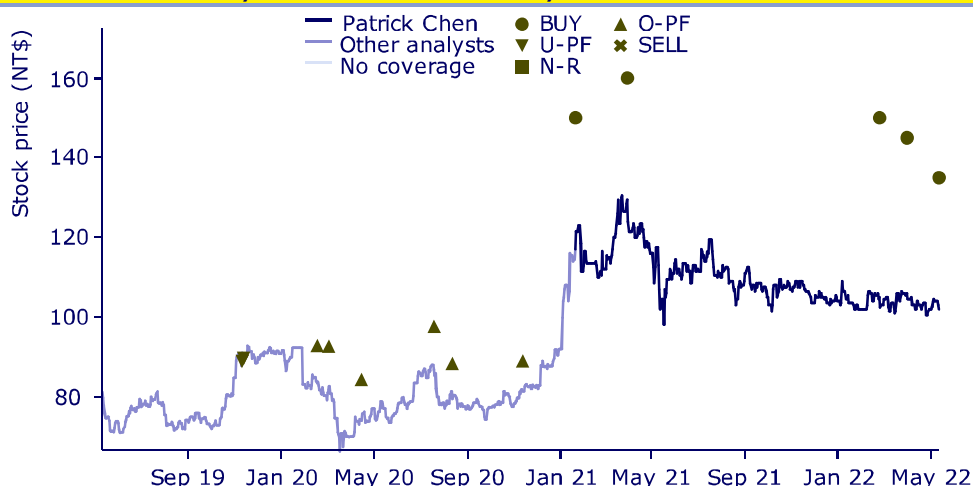
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Recommendation history of Hon Hai Precision Industry Co Ltd 2317 TT



Date	Rec	Target	Date	Rec	Target
LATEST	BUY	135.00	13 Aug 2020	O-PF	88.37
31 Mar 2022	BUY	145.00	20 Jul 2020	O-PF	97.75
23 Feb 2022	BUY	150.00	16 Apr 2020	O-PF	84.43
30 Mar 2021	BUY	160.00	04 Mar 2020	O-PF	92.74
21 Jan 2021	BUY	150.00	18 Feb 2020	O-PF	92.85
21 Jan 2021	Dropped Coverage		14 Nov 2019	U-PF	89.61
13 Nov 2020	O-PF	89.00	12 Nov 2019	U-PF	88.81

Source: CLST

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