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## Hon Hai Precision | Asia Pacific

# March Revenue Beat; 2Q22 Outlook In-Line with Seasonality

Stock Rating  
Overweight

Industry View  
In-Line

Price Target  
NT\$145.00

**March revenue came in 7% ahead of our estimate at NT\$507bn (+12% MoM, +15% YoY),** driven by a new iPad model ramp, sustained NB and cloud server shipment strength. Smartphone shipment declined MoM post new model stocking.

1Q22 revenue increased 5% YoY (-26% QoQ) to NT\$1,408bn, better than prior guidance and street expectation of flat YoY, and also stronger than historical at least 30% QoQ dip.

We expect 2Q revenue to decline QoQ but to be flat YoY, as the seasonal iPhone build decline will be offset by tablet/NB and cloud server demand strength. Hon Hai sees limited impact from COVID related control in China so far but further developments are worth monitoring.

**Stay OW:** Hon Hai continues to deliver stronger financial results despite various macro uncertainties. We are mindful of potential impacts to margins on higher input costs but we believe Hon Hai will better handle macro volatility thanks to its solid operation expertise, global production diversification and continuous project wins on cloud server and EV manufacturing business.

MORGAN STANLEY TAIWAN LIMITED+

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**Hon Hai Precision ( 2317.TW, 2317 TT )** **Top Pick**

Greater China Technology Hardware / Taiwan

Stock Rating	Overweight
Industry View	In-Line
Price target	NT\$145.00
Up/downside to price target (%)	39
Shr price, close (Apr 1, 2022)	NT\$104.50
52-Week Range	NT\$124.50-96.50
Sh out, dil, curr (mn)	13,863
Mkt cap, curr (mn)	NT\$1,448,683
EV, curr (mn)	NT\$901,113
Avg daily trading value (mn)	NT\$3,474

Fiscal Year Ending	12/20	12/21e	12/22e	12/23e
ModelWare EPS (NT\$)	7.34	10.05	10.50	11.80
Prior ModelWare EPS (NT\$)	-	-	-	-
EPS (NT\$)§	7.83	9.95	10.60	11.81
Revenue, net (NT\$ bn)	5,358.0	5,994.2	6,182.6	6,610.8
EBITDA (NT\$ bn)	175.9	209.2	225.5	252.4
ModelWare net inc (NT\$ bn)	101.8	139.3	145.5	163.6
P/E	12.5	10.3	10.0	8.9
P/BV	0.9	0.9	0.9	0.9
RNOA (%)	7.2	12.8	12.8	14.6
ROE (%)	7.3	9.5	9.4	10.1
EV/EBITDA	4.1	4.4	3.9	3.3
Div yld (%)	4.3	5.8	6.1	6.8

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Refinitiv Estimates  
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## Valuation Methodology and Risks

### Hon Hai Precision (2317.TW)

Our price target of NT\$145 is our base case scenario value, derived from a residual income valuation model. Our key assumptions include a cost of equity of 8.5%, a medium-term growth rate of 9%, and a terminal growth rate of 3%.

#### Risks to Upside

- Better-than-expected iPhone sell-through
- Faster EV business development progress
- Higher-than-expected cash dividend payout
- Any new M&A activity that could improve sentiment

#### Risks to Downside

- Lower iPhone sell-through
- Slower EV business development progress
- Lower cash dividend payout
- Geopolitical developments that could negatively affect foreign investment

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(as of March 31, 2022)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
<b>Overweight/Buy</b>	<b>1438</b>	<b>41%</b>	<b>366</b>	<b>45%</b>	<b>25%</b>	<b>630</b>	<b>41%</b>
<b>Equal-weight/Hold</b>	<b>1539</b>	<b>44%</b>	<b>365</b>	<b>45%</b>	<b>24%</b>	<b>712</b>	<b>46%</b>
<b>Not-Rated/Hold</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>552</b>	<b>16%</b>	<b>87</b>	<b>11%</b>	<b>16%</b>	<b>207</b>	<b>13%</b>
<b>TOTAL</b>	<b>3,529</b>		<b>818</b>			<b>1549</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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### Stock Price, Price Target and Rating History (See Rating Definitions)

Hon Hai Precision (2317.TW) - As of 4/4/22 in TWD  
Industry : Greater China Technology Hardware



Stock Rating History: 4/1/17 : U/I; 7/13/17 : E/I; 10/24/17 : O/I; 8/22/18 : E/I; 2/25/20 : O/I

Price Target History: 11/2/16 : 90; 4/3/17 : 92.5; 5/9/17 : 102.5; 7/13/17 : 135; 10/24/17 : 168.75; 2/12/18 : 147.5; 4/3/18 : 135; 8/22/18 : 102.5; 11/14/18 : 86; 11/14/19 : 95; 2/25/20 : 115; 3/20/20 : 95; 8/13/20 : 102; 1/6/21 : 130; 3/22/21 : 168; 3/8/22 : 145

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/01/2022)
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BYD Electronics (0285.HK)	O (08/11/2021)	HK\$17.42
China TransInfo Technology Co Ltd (002373.SZ)	U (05/24/2021)	Rmb10.76
Dahua Technology Co. Ltd. (002236.SZ)	O (05/24/2021)	Rmb16.51
HIKVision Digital Technology (002415.SZ)	O (11/02/2015)	Rmb41.21
Largan Precision (3008.TW)	O (12/17/2021)	NT\$1,860.00
OFILM Group Co Ltd (002456.SZ)	E (11/04/2021)	Rmb7.07
Shenzhen Transsion Holdings Co Ltd (688036.SS)	O (08/12/2021)	Rmb96.02
Sunny Optical (2382.HK)	E (08/18/2021)	HK\$126.80
Wingtech Technology Co Ltd (600745.SS)	E (12/17/2021)	Rmb81.35
Xiaomi Corp (1810.HK)	O (04/14/2021)	HK\$14.04
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb26.87
Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (12/17/2021)	HK\$10.98
Zhongji Innolight Co Ltd (300308.SZ)	E (12/17/2021)	Rmb31.68
ZTE Corporation (0763.HK)	O (06/20/2019)	HK\$16.36
ZTE Corporation (000063.SZ)	U (07/02/2021)	Rmb23.93
<b>Derrick Yang</b>		
Advantech (2395.TW)	O (01/20/2021)	NT\$374.50
AirTAC International (1590.TW)	O (01/11/2022)	NT\$924.00
AU Optronics (2409.TW)	E (01/20/2022)	NT\$19.70
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb4.31
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT\$177.00
Ennoconn Corporation (6414.TW)	O (01/20/2021)	NT\$203.00
GIS Holding Limited (6456.TW)	O (12/01/2020)	NT\$97.50
Hiwin Technologies Corp. (2049.TW)	O (01/20/2021)	NT\$240.50
Innolux (3481.TW)	E (01/20/2022)	NT\$16.75
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb11.64
Leyard Optoelectronic Co Ltd (300296.SZ)	E (11/03/2020)	Rmb7.20
Radiant Opto-Electronics Corporation (6176.TW)	O (12/01/2020)	NT\$103.00
TCL Corp. (000100.SZ)	E (06/11/2019)	Rmb4.89
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb10.48
Visionox Technology Inc (002387.SZ)	E (02/18/2020)	Rmb7.13
Wuhan Jingce Electronic Group Co Ltd (300567.SZ)	E (11/26/2021)	Rmb42.48
Wuhu Token Science Co. Ltd. (300088.SZ)	E (12/01/2020)	Rmb8.10
<b>Howard Kao</b>		
Accton Technology Corporation (2345.TW)	E (11/12/2021)	NT\$230.00
Acer Inc. (2353.TW)	U (02/01/2018)	NT\$29.65
Asustek Computer Inc. (2357.TW)	U (07/23/2021)	NT\$373.50
Compal Electronics (2324.TW)	U (12/18/2019)	NT\$26.90
Flexium (6269.TW)	E (04/27/2018)	NT\$101.00
Guangdong Fenghua Adv. Tech. (Hldg) Co (000636.SZ)	E (05/12/2021)	Rmb20.43
Inspur Electronic Information (000977.SZ)	E (02/12/2019)	Rmb27.15
Kinsus Interconnect Tech. (3189.TW)	O (02/06/2020)	NT\$202.50
Legend Holdings Corp (3396.HK)	E (03/29/2018)	HK\$10.16
Lenovo (0992.HK)	E (07/26/2018)	HK\$9.04
Nan Ya PCB (8046.TW)	O (10/22/2021)	NT\$526.00
Pegatron Corporation (4938.TW)	E (03/07/2022)	NT\$72.50
Quanta Computer Inc. (2382.TW)	E (07/28/2021)	NT\$86.50
Shengyi Technology Co Ltd. (600183.SS)	O (07/22/2020)	Rmb16.11
Shennan Circuits Co Ltd (002916.SZ)	O (07/22/2020)	Rmb91.30
Tripod Technology (3044.TW)	E (08/11/2020)	NT\$131.50
Unimicron (3037.TW)	O (10/22/2021)	NT\$243.50
Wistron Corporation (3231.TW)	E (07/26/2018)	NT\$29.90
Wiwynn Corp (6669.TW)	O (08/01/2019)	NT\$990.00
Yageo Corp. (2327.TW)	O (01/04/2022)	NT\$426.00
Zhen Ding (4958.TW)	U (04/24/2020)	NT\$108.50
<b>Sharon Shih</b>		

AAC Technologies Holdings (2018.HK)	++	HK\$19.30
Asia Vital Components Co. Ltd. (3017.TW)	O (05/14/2021)	NT\$114.50
Auras Technology Co Ltd (3324.TWO)	U (03/21/2022)	NT\$207.00
Catcher Technology (2474.TW)	U (04/23/2021)	NT\$146.00
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT\$268.50
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb10.18
Foxconn Technology (2354.TW)	E (08/16/2016)	NT\$62.10
GoerTek Inc (002241.SZ)	O (06/24/2021)	Rmb35.02
Guangzhou Shiyuan Electronic Tech Co Ltd (002841.SZ)	E (10/28/2021)	Rmb65.17
Hon Hai Precision (2317.TW)	O (02/25/2020)	NT\$104.50
LandMark Optoelectronics Corporation (3081.TWO)	O (01/13/2022)	NT\$184.50
Lingyi Itech Guangdong Co (002600.SZ)	E (09/28/2020)	Rmb5.08
Lite-On Technology (2301.TW)	E (07/31/2020)	NT\$68.30
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb31.30
MLS Company Limited (002745.SZ)	E (09/10/2018)	Rmb11.72
Sanan Optoelectronics (600703.SS)	U (06/17/2019)	Rmb23.99
Sunonwealth Electric Machine Industry Co (2421.TW)	O (01/21/2022)	NT\$42.60
Tong Hsing (6271.TW)	E (03/18/2019)	NT\$289.00
Visual Photonics Epitaxy Co Ltd (2455.TW)	U (01/12/2022)	NT\$112.50

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.