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Hon Hai Precision | Asia Pacific

Our Assessment of the Impact from COVID-related Control in Zhengzhou

Stock Rating
Overweight

Industry View
In-Line

Price Target
NT\$145.00

According to Bloomberg on April 16, the COVID-19 related lockdown in Zhengzhou, China, will last at least two weeks. Hon Hai in a statement indicated its operation in Zhengzhou has been normal with logistics not affected.

Any potential iPhone production impact is worth monitoring. Our understanding is that Zhengzhou is one of Hon Hai's major production sites, mainly for iPhone assembly (60% of its iPhone assembly capacity) and related component manufacturing. We estimate iPhone contributed around 50% of its 2021 revenue.

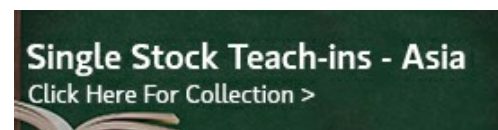
For iPhone assembly capacity split, Zhengzhou takes up around 40%, Jiangsu 30-35%, Shenzhen ~20% and <5% in India. 2Q normally is the light season of the year for iPhone production, with capacity loading likely at 50-60%. That leaves some production flexibility to shift orders across multiple sites, if needed.

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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 (%) | 41 |
| Shr price, close (Apr 15, 2022) | NT\$103.00 |
| 52-Week Range | NT\$124.00-96.50 |
| Sh out, dil, curr (mn) | 13,863 |
| Mkt cap, curr (mn) | NT\$1,427,888 |
| EV, curr (mn) | NT\$880,319 |
| Avg daily trading value (mn) | NT\$3,358 |

| 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 | 9.8 | 8.7 |
| P/BV | 0.9 | 0.9 | 0.9 | 0.8 |
| RNOA (%) | 7.2 | 12.8 | 12.8 | 14.6 |
| ROE (%) | 7.3 | 9.5 | 9.4 | 10.1 |
| EV/EBITDA | 4.1 | 4.4 | 3.8 | 3.2 |
| Div yld (%) | 4.3 | 5.8 | 6.2 | 6.9 |

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

§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research 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 |
| Overweight/Buy | 1438 | 41% | 366 | 45% | 25% | 630 | 41% |
| Equal-weight/Hold | 1539 | 44% | 365 | 45% | 24% | 712 | 46% |
| Not-Rated/Hold | 0 | 0% | 0 | 0% | 0% | 0 | 0% |
| Underweight/Sell | 552 | 16% | 87 | 11% | 16% | 207 | 13% |
| TOTAL | 3,529 | | 818 | | | 1549 | |

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 4/17/22 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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|-----------------------------------------------------|----------------|---------------------|
| Andy Meng, CFA | | |
| BYD Electronics (0285.HK) | O (08/11/2021) | HK\$15.06 |
| China TransInfo Technology Co Ltd (002373.SZ) | U (05/24/2021) | Rmb9.96 |
| Dahua Technology Co. Ltd. (002236.SZ) | O (05/24/2021) | Rmb15.72 |
| Genius Electronic Optical Co. Ltd. (3406.TW) | O (04/05/2022) | NT\$418.00 |
| HIKVision Digital Technology (002415.SZ) | O (11/02/2015) | Rmb39.93 |
| Largan Precision (3008.TW) | O (12/17/2021) | NT\$1,625.00 |
| LianChuang Electronic Technology Co Ltd (002036.SZ) | E (04/05/2022) | Rmb12.59 |
| OFILM Group Co Ltd (002456.SZ) | E (11/04/2021) | Rmb6.26 |
| Q Technology (Group) Company Ltd (1478.HK) | E (04/05/2022) | HK\$5.69 |
| Shenzhen Transsion Holdings Co Ltd (688036.SS) | O (08/12/2021) | Rmb87.49 |
| Sunny Optical (2382.HK) | O (04/05/2022) | HK\$110.80 |
| Wingtech Technology Co Ltd (600745.SS) | E (12/17/2021) | Rmb69.70 |
| Xiaomi Corp (1810.HK) | O (04/14/2021) | HK\$12.48 |
| Yangtze Optical Fibre and Cable JSC Ltd (601869.SS) | U (10/13/2021) | Rmb24.47 |
| Yangtze Optical Fibre and Cable JSC Ltd (6869.HK) | O (12/17/2021) | HK\$10.18 |
| Yongxin Optics Co Ltd (603297.SS) | U (04/05/2022) | Rmb82.88 |
| YuTong Optical Technology Co Ltd (300790.SZ) | E (04/05/2022) | Rmb27.39 |
| Zhejiang Crystal-Optech Co Ltd (002273.SZ) | E (04/05/2022) | Rmb10.05 |
| Zhongji Innolight Co Ltd (300308.SZ) | E (12/17/2021) | Rmb29.20 |
| ZTE Corporation (0763.HK) | O (06/20/2019) | HK\$15.42 |
| ZTE Corporation (000063.SZ) | U (07/02/2021) | Rmb22.69 |
| Derrick Yang | | |
| Advantech (2395.TW) | O (01/20/2021) | NT\$366.50 |
| AirTAC International (1590.TW) | O (01/11/2022) | NT\$871.00 |
| AU Optronics (2409.TW) | E (01/20/2022) | NT\$19.05 |
| BOE Technology (000725.SZ) | O (09/06/2019) | Rmb4.11 |
| Chroma Ate Inc. (2360.TW) | O (10/05/2021) | NT\$167.00 |
| Ennoconn Corporation (6414.TW) | O (01/20/2021) | NT\$200.00 |
| GIS Holding Limited (6456.TW) | O (12/01/2020) | NT\$93.50 |
| Hiwin Technologies Corp. (2049.TW) | O (01/20/2021) | NT\$225.00 |
| Innolux (3481.TW) | E (01/20/2022) | NT\$15.65 |
| Lens Technology (300433.SZ) | E (07/22/2020) | Rmb10.71 |
| Leyard Optoelectronic Co Ltd (300296.SZ) | E (11/03/2020) | Rmb6.53 |
| Radiant Opto-Electronics Corporation (6176.TW) | O (12/01/2020) | NT\$104.50 |
| TCL Corp. (000100.SZ) | E (06/11/2019) | Rmb4.76 |
| Tianma Microelectronics (000050.SZ) | U (01/24/2018) | Rmb10.09 |
| Visionox Technology Inc (002387.SZ) | E (02/18/2020) | Rmb6.67 |
| Wuhan Jingce Electronic Group Co Ltd (300567.SZ) | E (11/26/2021) | Rmb37.61 |
| Wuhu Token Science Co. Ltd. (300088.SZ) | E (12/01/2020) | Rmb6.88 |
| Howard Kao | | |
| Accton Technology Corporation (2345.TW) | E (11/12/2021) | NT\$224.00 |
| Acer Inc. (2353.TW) | U (02/01/2018) | NT\$28.10 |
| Asustek Computer Inc. (2357.TW) | U (07/23/2021) | NT\$356.50 |
| Compal Electronics (2324.TW) | U (12/18/2019) | NT\$25.45 |
| Flexium (6269.TW) | E (04/27/2018) | NT\$96.00 |
| Guangdong Fenghua Adv. Tech. (Hldg) Co (000636.SZ) | E (05/12/2021) | Rmb19.00 |
| Inspur Electronic Information (000977.SZ) | E (02/12/2019) | Rmb27.20 |
| Kinsus Interconnect Tech. (3189.TW) | O (02/06/2020) | NT\$181.00 |
| Legend Holdings Corp (3396.HK) | E (03/29/2018) | HK\$9.89 |
| Lenovo (0992.HK) | E (07/26/2018) | HK\$7.75 |
| Nan Ya PCB (8046.TW) | O (10/22/2021) | NT\$441.00 |
| Pegatron Corporation (4938.TW) | E (03/07/2022) | NT\$70.30 |
| Quanta Computer Inc. (2382.TW) | E (07/28/2021) | NT\$85.90 |
| Shengyi Technology Co Ltd. (600183.SS) | O (07/22/2020) | Rmb16.30 |
| Shennan Circuits Co Ltd (002916.SZ) | O (07/22/2020) | Rmb92.50 |
| Tripod Technology (3044.TW) | E (08/11/2020) | NT\$126.00 |
| Unimicron (3037.TW) | O (10/22/2021) | NT\$205.00 |
| Wistron Corporation (3231.TW) | E (07/26/2018) | NT\$29.40 |
| Wiwynn Corp (6669.TW) | O (08/01/2019) | NT\$962.00 |
| Yageo Corp. (2327.TW) | O (01/04/2022) | NT\$405.00 |
| Zhen Ding (4958.TW) | U (04/24/2020) | NT\$105.00 |

Sharon Shih

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| AAC Technologies Holdings (2018.HK) | ++ | HK\$17.04 |
| Asia Vital Components Co. Ltd. (3017.TW) | O (05/14/2021) | NT\$104.50 |
| Auras Technology Co Ltd (3324.TWO) | U (03/21/2022) | NT\$177.50 |
| Catcher Technology (2474.TW) | U (04/23/2021) | NT\$146.50 |
| Delta Electronics Inc. (2308.TW) | O (07/13/2017) | NT\$249.50 |
| Foxconn Industrial Internet Co. Ltd. (601138.SS) | O (07/10/2019) | Rmb10.04 |
| Foxconn Technology (2354.TW) | E (08/16/2016) | NT\$60.60 |
| GoerTek Inc (002241.SZ) | O (06/24/2021) | Rmb31.88 |
| Guangzhou Shiyuan Electronic Tech Co Ltd (002841.SZ) | E (10/28/2021) | Rmb67.01 |
| Hon Hai Precision (2317.TW) | O (02/25/2020) | NT\$103.00 |
| LandMark Optoelectronics Corporation (3081.TWO) | O (01/13/2022) | NT\$150.00 |
| Lingyi Itech Guangdong Co (002600.SZ) | E (09/28/2020) | Rmb4.64 |
| Lite-On Technology (2301.TW) | E (07/31/2020) | NT\$67.60 |
| Luxshare Precision Industry Co., Ltd. (002475.SZ) | O (10/24/2016) | Rmb29.22 |
| MLS Company Limited (002745.SZ) | E (09/10/2018) | Rmb10.49 |
| Sanan Optoelectronics (600703.SS) | U (06/17/2019) | Rmb21.35 |
| Sunonwealth Electric Machine Industry Co (2421.TW) | O (01/21/2022) | NT\$38.60 |
| Tong Hsing (6271.TW) | E (03/18/2019) | NT\$252.50 |
| Visual Photonics Epitaxy Co Ltd (2455.TW) | U (01/12/2022) | NT\$92.60 |

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

* Historical prices are not split adjusted.