

EQUITY: PC HARDWARE

### More constructive outlook amid uncertainties

## Quick Note

#### 1Q22 results largely in line with consensus/guidance, with margins slightly expanding y-y

Hon Hai (HH) reported 1Q22 earnings (+4.6% y-y, +2.7% q-q), which were 4% above consensus, mainly due to 3% sales (+4.5% y-y, -26% q-q) beat. Its GPM/OPM of 6.0%/2.6% roughly aligned with consensus estimates of 6.0%/2.3%, and recorded 0.2pp/0.6pp y-y rise.

#### 2Q22: one of the few downstream companies which can provide clear guidance

HH guided its 2Q22 sales to be flattish q-q (which is 2-3% higher than consensus), with the seasonal weakness in the consumer segment to be offset by the robust cloud segment and solid demand in computing and components. The company also expects GM to increase y-y for 2Q22 and 2022, demonstrating HH's flexibility under the fast-changing and complex supply chain situation. It is one of the few companies which is able to deliver clear guidance under macro risks and China lockdown impacts (*Goertek [002241 CH], Buy*) is another one also guiding for a decent outlook in 2Q22, in our view.

#### 2022: revising up computing segment guidance thanks to market share gain

For 2022, management maintains its unchanged expectation of flattish sales growth, but raised its guidance for the computing segment (from flat to meaningful growth) on market share gains. As we highlighted in *our report* that more than 50% of MacBook's capacity is at Quanta's (2382 TT, Neutral) Shanghai plant, which was shut down in April 2022, we think HH's upward revisions for the Computing business likely represents its gains in iPad/MacBook (echoing our cautious view on Quanta).

#### Making progress with Lordstown; completing the Ohio plant purchase

HH announced three contracts signed with Lordstown Motors Corp (LMC) on 12 May 2022 (see *previous announcements on 1 Oct 2021*).

- The completion of LMC's Ohio facility purchase:** The facility will be HH's first and important EV manufacturing hub in North America. The plant will produce pick-up trucks first, and will manufacture for Fisker by 2024. The modification of the facility for sedan or SUV, from current setup for pick-up trucks, will require an additional USD500mn of capex in the future, according to management.
- LMC's pick-up trucks (Endurance) to be mass-produced in 2H22:** Apart from the whole-car assembly, HH will also supply some electronic systems to Endurance, and LMC will be in charge of most of the components' purchases (lower inventory risks for Hon Hai).
- A JV (MIH EV Design LLC) with LMC:** HH has invested USD55mn in the new JV and holds 55% of shares. The two companies will co-design and develop EVs based on the MIH platform (C and E model). We think HH could benefit from the setup of JV as it could leverage LMC's technologies in automotive motors and batteries.

We maintain our Buy rating for Hon Hai and TP of TWD152 (based on 14x 2022F EPS of 10.89). The stock is currently trading at 9.4x 2022F EPS.

Rating Remains	Buy
Target price Remains	TWD 152.00
Closing price 12 May 2022	TWD 102.00

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Fig. 1: Hon Hai: 1Q22 results

TWDmn	1Q22 results	Nomura estimates	Diff%	Consensus	Diff %	4Q21 results	q-q (%)	1Q21 results	y-y (%)
Total sales	1,407,553	1,137,011	23.8	1,371,025	2.7	1,889,826	(25.5)	1,347,113	4.5
Gross profit	84,766	68,447	23.8	82,261	3.0	113,866	(25.6)	78,133	8.5
Operating profit	36,669	24,104	52.1	30,905	18.6	52,720	(30.4)	27,570	33.0
Pretax profit	36,927	34,049	8.5	39,942	(7.5)	62,208	(40.6)	39,189	(5.8)
Net profit	29,450	23,770	23.9	28,280	4.1	44,395	(33.7)	28,162	4.6
EPS (NT\$)	2.12	1.71		2.05		3.20		2.03	
			(ppts)		(ppts)				
Gross margin (%)	6.0	6.0	0.0	6.0	0.0	6.0	(0.0)	5.8	0.2
Operating margin (%)	2.6	2.1	0.5	2.3	0.4	2.8	(0.2)	2.0	0.6
Pretax margin (%)	2.6	3.0	(0.4)	2.9	(0.3)	3.3	(0.7)	2.9	(0.3)
Net margin (%)	2.1	2.1	0.0	2.1	0.0	2.3	(0.3)	2.1	0.0

Source: Company data, Bloomberg consensus, Nomura estimates

# Appendix A-1

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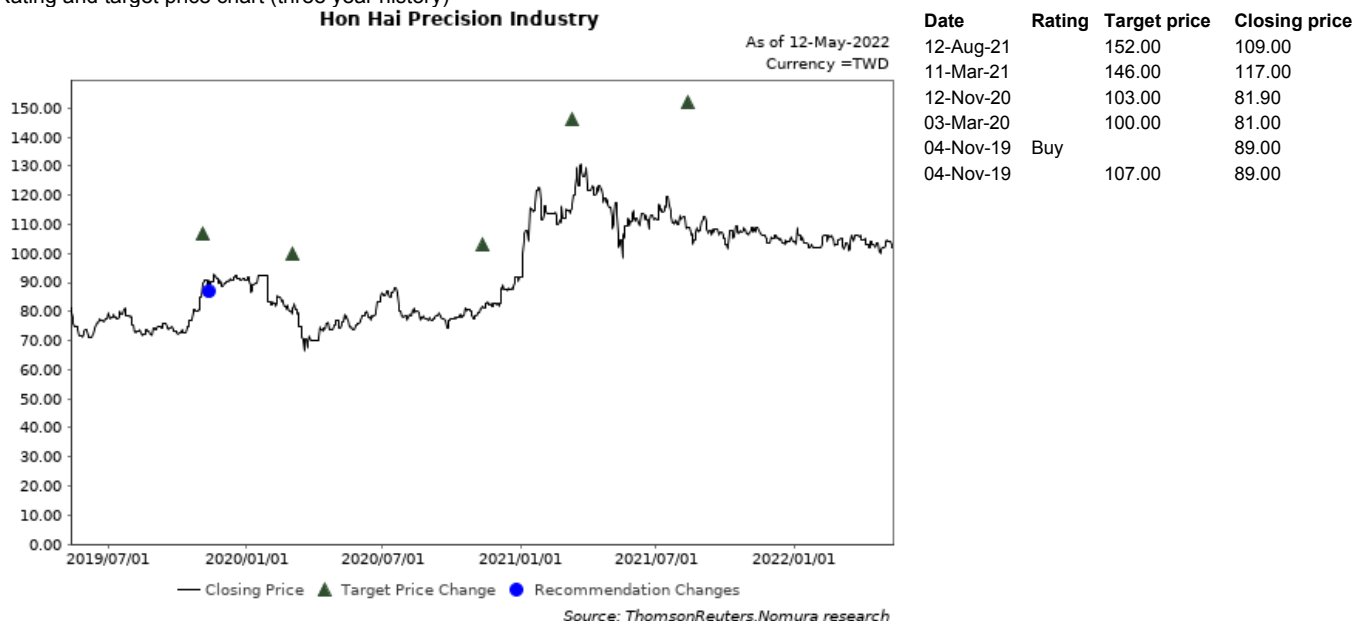
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Hon Hai Precision Industry	2317 TT	TWD 102.00	12-May-2022	Buy	N/A	
Quanta Computer	2382 TT	TWD 82.10	12-May-2022	Neutral	N/A	

### Hon Hai Precision Industry (2317 TT)

TWD 102.00 (12-May-2022) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

#### Hon Hai Precision Industry



For explanation of ratings refer to the stock rating keys located after chart(s)

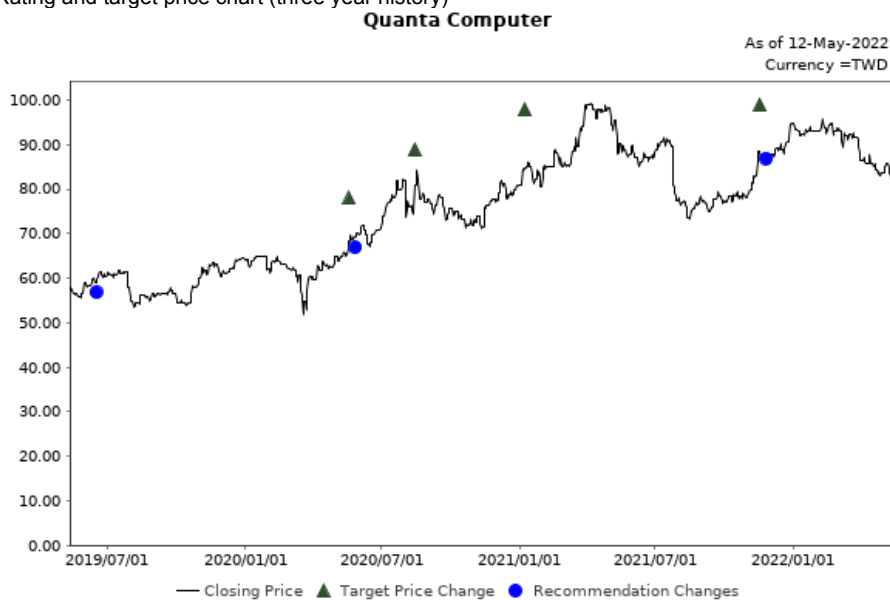
**Valuation Methodology** Our TP of TWD152 is based on 14x 2022F EPS of TWD10.89. Our target P/E multiple of 14x is at the high-end of Hon Hai's historical P/E range of 5-15x in the past 10 years. The benchmark index for this stock is Taiwan TAIEX.

**Risks that may impede the achievement of the target price** Downside risks: 1) weaker-than-expected demand for Apple's products, 2) market share loss in Apple's products, 3) metal casing value declines more than expected, and 4) Apple's request of diversifying iPhone production sites outside of China.

**Quanta Computer (2382 TT)**

TWD 82.10 (12-May-2022) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
18-Nov-21	Neutral		88.30
18-Nov-21		99.00	88.30
08-Jan-21		98.00	84.60
14-Aug-20		89.00	81.00
19-May-20	Buy		68.30
19-May-20		78.00	68.30
08-Jun-19	Suspended		58.20

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our TP of TWD99 is based on 13x 2022F EPS of TWD7.58. Our target P/E multiple of 13x is at the high end of Quanta's historical P/E range of 8-13x, which we think is justified by the company's improving product mix and transition to cloud servers. The benchmark index for this stock is Taiwan TAIEX index.

**Risks that may impede the achievement of the target price** Downside risks include fiercer competition at data center servers/AIoT products, hyperscale data center investment slowdown, supply constraints associated with key component shortage or logistics disruption, unfavorable cost structure associated with higher component price or CNY appreciation vs. USD, weaker-than-expected notebook demand and a global economic slowdown.

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