

Hon Hai (2317.TW/2317 TT)

Cloud & AI server sales to fuel 2024-25F EPS growth

FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of May 6 (NT\$)	167.5
12M target price (NT\$)	205.0
Previous target price (NT\$)	205.0
Unchanged (%)	0.0
Upside (%)	22.4

Key message

- We expect product mix improvement and a favorable NT-dollar trend to result in a gross margin and EPS beat in 1Q24.
- 2Q24F cloud sales weighting to continue to rise; 2024-25F cloud sales will continue to be key sales and earnings growth driver.
- GB200 order wins from CSP and enterprise clients in 2025F to drive EPS growth, while consumer electronics and computing sales will stabilize on global footprint advantages.

Trading data

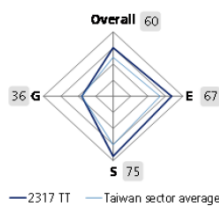
Mkt cap (NT\$bn/US\$m)	2,322 / 71,828
Outstanding shares (mn)	13,863
Foreign ownership (mn)	5,722
3M avg. daily trading (mn)	83.37
52-week trading range (NT\$)	94.50 –167.5

Performance	3M	6M	12M
Absolute (%)	65	73.8	59.5
Relative (%)	51.6	50.5	28.2

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	2.12A	2.40A	2.80A	2.88A
2023	0.93A	2.38A	3.11A	3.83A
2024	2.35F	2.34F	2.97F	4.12F

ESG score card



Source: Refinitiv

Event

Hon Hai will hold an investor meeting to post 1Q24 results and 2Q24F guidance on May 14. We estimate 2Q24F sales will grow by high-single digits QoQ and YoY, and expect robust 2H24F sales growth for the cloud business. 2025F cloud sales will be the key growth catalyst on CSP and enterprise GB200 demand.

Impact

1Q24 to be 2024F sales trough; cloud to be main sales growth catalyst. 1Q24 sales registered 29% QoQ and 10% YoY declines on low seasonality, below consensus and our estimate. Cloud sales were relatively stronger than expected, flat QoQ and up by double digits YoY, but were offset by weak smartphone sales. We think the 1Q24 product mix was more favorable than in 4Q23 and 1Q23, with the cloud and networking sales weighting up to 25-30% in 1Q24, versus 20% in 4Q23, and 22% in 1Q23 and 2023 overall. Coupled with NT-dollar depreciation, we estimate 1Q24F gross margin of 6.2%, beating guidance, and expect operating margin of 2.7%, beating consensus. We thus slightly revise up 1Q24F EPS to NT\$2.35.

Cloud sales to be main sales & earnings growth driver through 2025F. We expect 2Q24 sales to grow 6% QoQ and 8% YoY, and cloud and computing to be the main drivers. It will hold its cloud AI sales growth target of over 40% YoY in 2024F, with a sales weighting of over 40% of total server sales, with GPU-related sales (i.e. modules and baseboards) to at least double YoY, following a CoWoS capacity expansion. The firm expects AI server sales from CSPs and brands to grow by more than 50% and 30% YoY, respectively, in 2024, boosting overall cloud/ networking sales growth by 18% YoY from NT\$1.3-1.4tn in 2023, with server and AI server sales of nearly NT\$1.0tr and NT\$300bn, respectively. We forecast this will lift the cloud/ networking sales weighting to 25% in 2024, fueling overall gross margin and EPS growth, as AI rack (H100) assembly sales exclude the price of GPUs. We adjust 2024F EPS to NT\$11.77 to reflect higher operating expenses and lower non-operating income. As for 2025, we expect cloud sales to remain the major sales and earnings growth driver, as Hon Hai has won GB200 orders from several CSP and enterprise clients. Based on market expectations of GB200 demand for 40k racks, we expect Hon Hai to have a market share of close to 40%, which will contribute 2025 sales of NT\$1-1.5tn, based on ASP of US\$3.0mn for the primary NVL72 design, increase the firm's cloud sales weighting up to 30-40% of total 2025F sales, and contribute EPS of NT\$1.5-1.8, based on net margin of 2%. We forecast 2025 EPS of NT\$13.84, up 18% YoY, with an adjustment for diluted gross margin on GB200 AI server sales, owing to GPU sourcing. We also expect consumer electronics (iPhones) and computing sales (MacBooks and DT) to stabilize on the Hon Hai's global footprint advantage over peers, given clients' sourcing diversification strategies.

Valuation & Action

We raise our target price from NT\$164 to NT\$205, based on 16x 2024-25F EPS (for a 2023-25F EPS CAGR of 16%), and maintain Outperform on a low valuation, good cash yield, and decent earnings growth.

Risks

Slow EV orders and component development; weakening global demand.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$m)	5,994,174	6,626,997	6,162,221	6,496,688	7,772,408
Gross profit (NT\$m)	362,127	400,085	387,947	419,996	466,706
Operating profit (NT\$m)	148,959	173,788	166,528	193,713	229,872
Net profit (NT\$m)	139,320	141,483	142,098	163,174	191,898
EPS (NT\$)	10.05	10.21	10.25	11.77	13.84
Cash DPS (NT\$)	5.20	5.30	5.40	6.20	7.29
EPS growth (%)	36.9	1.6	0.4	14.8	17.6
PE (x)	16.7	16.4	16.3	14.2	12.1
PB (x)	1.7	1.6	1.6	1.5	1.4
EV/EBITDA (x)	7.8	7.3	6.9	4.3	3.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	3.1	3.2	3.2	3.7	4.4
Return on average equity (%)	10.4	10.0	9.7	10.7	11.9

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 1Q24 & 2Q24 forecasts & revisions vs. consensus

NT\$m	1Q24F							2Q24F						
	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	1,322,163	1,412,423	(6.4)	(28.6)	(9.6)	1,372,746	(3.7)	1,404,537	1,466,948	(4.3)	6.2	7.7	1,414,828	(0.7)
Gross profits	81,974	84,745	(3.3)	(27.6)	(7.2)	84,039	(2.5)	91,295	95,352	(4.3)	11.4	9.2	91,030	0.3
Operating income	35,698	36,723	(2.8)	(27.0)	(11.9)	35,229	1.3	40,732	42,542	(4.3)	14.1	31.7	38,039	7.1
Pretax Income	42,982	43,178	(0.5)	(35.7)	110.7	40,649	5.7	47,016	48,997	(4.0)	9.4	(1.4)	46,394	1.3
Net income	32,273	32,430	(0.5)	(39.3)	151.7	29,091	10.9	32,662	34,148	(4.4)	1.2	(1.0)	32,226	1.4
EPS (NT\$)	2.33	2.34	(0.5)	(39.3)	151.7	2.10	10.9	2.36	2.46	(4.4)	1.2	(1.0)	2.32	1.4
Gross margin (%)	6.2	6.0	0.2 ppts	0.1 ppts	0.2 ppts	6.1	0.1 ppts	6.5	6.5	0.0 ppts	0.3 ppts	0.1 ppts	6.4	0.1 ppts
OP margin (%)	2.7	2.6	0.1 ppts	0.1 ppts	(0.1)ppts	2.6	0.1 ppts	2.9	2.9	0.0 ppts	0.2 ppts	0.5 ppts	2.7	0.2 ppts
Net margin (%)	2.4	2.3	0.1 ppts	(0.4)ppts	1.6 ppts	2.1	0.3 ppts	2.3	2.3	(0.0)ppts	(0.1)ppts	(0.2)ppts	2.3	0.0 ppts

Source: Company data, Bloomberg, KGI Research

Figure 2: Breakdown of 2024-25 forecasts & revisions vs. consensus

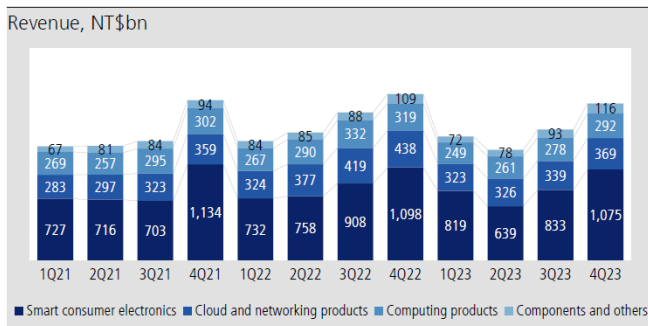
NT\$m	2024F						2025F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	6,496,688	6,585,051	(1.3)	5.4	6,564,949	(1.0)	7,772,408	7,284,589	6.7	19.6	7,480,822	3.9
Gross profit	419,996	429,138	(2.1)	8.3	421,141	(0.3)	466,706	488,093	(4.4)	11.1	485,431	(3.9)
Operating income	193,713	201,115	(3.7)	16.3	189,410	2.3	229,872	250,681	(8.3)	18.7	228,896	0.4
Pretax Income	218,849	226,936	(3.6)	13.9	217,973	0.4	254,532	277,736	(8.4)	16.3	257,051	(1.0)
Net income	163,174	168,549	(3.2)	14.8	159,671	2.2	191,898	209,189	(8.3)	17.6	187,277	2.5
EPS (NT\$)	11.77	12.16	(3.2)	14.8	11.52	2.2	13.84	15.09	(8.3)	17.6	13.51	2.5
Gross margin (%)	6.5	6.5	(0.1)ppts	0.2 ppts	6.4	0.0 ppts	6.0	6.7	(0.7)ppts	(0.5)ppts	6.5	(0.5)ppts
OP margin (%)	3.0	3.1	(0.1)ppts	0.3 ppts	2.9	0.1 ppts	3.0	3.4	(0.5)ppts	(0.0)ppts	3.1	(0.1)ppts
Net margin (%)	2.5	2.6	(0.0)ppts	0.2 ppts	2.4	0.1 ppts	2.5	2.9	(0.4)ppts	(0.0)ppts	2.5	(0.0)ppts

Source: Company data, Bloomberg, KGI Research estimates

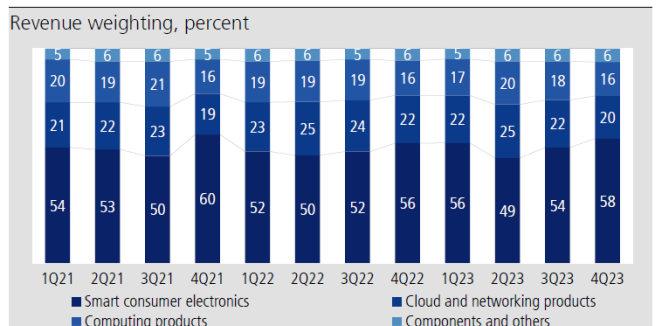
Figure 3: Product mix

Sales (NT\$b)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	732	758	908	1,098	819	639	833	1,075	620	2,593	3,280	3,496	3,366	3,310	3,402
Cloud & networking	324	377	419	438	323	326	339	369	374	1,316	1,267	1,557	1,358	1,605	2,655
Computing	267	290	332	319	249	261	278	292	248	1,136	1,114	1,208	1,079	1,141	1,202
Components & others	84	85	87	109	72	78	93	116	80	313	334	365	359	441	513
Total	1,408	1,510	1,747	1,963	1,462	1,305	1,543	1,852	1,322	5,358	5,994	6,627	6,162	6,497	7,772
Weighting (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	52	50	52	56	56	49	54	58	47	48	55	53	54	51	44
Cloud & networking	23	25	24	22	22	25	22	20	28	25	21	24	22	25	34
Computing	19	19	19	16	17	20	18	16	19	21	19	18	18	18	15
Components & others	6	6	5	6	5	6	6	6	6	6	6	6	6	7	7
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
YoY (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	1	6	29	(3)	12	(16)	(8)	(2)	(24)	(2)	27	7	(4)	(2)	3
Cloud & networking	14	27	29	20	(0)	(14)	(19)	(16)	16	5	(4)	23	(13)	18	65
Computing	2	12	13	8	(7)	(10)	(16)	(8)	(0)	2	(2)	8	(11)	6	5
Components & others	14	4	4	15	(15)	(7)	6	7	12	(3)	7	9	(2)	23	17
Total	4	12	24	4	4	(14)	(12)	(6)	(10)	0	12	11	(7)	5	20
QoQ (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	(36)	4	20	21	(25)	(22)	30	29	(42)						
Cloud & networking	(11)	17	11	5	(26)	1	4	9	1						
Computing	(10)	8	15	(4)	(22)	5	6	5	(15)						
Components & others	(11)	0	3	25	(34)	9	18	25	(31)						
Total	(26)	7	16	12	(26)	(11)	18	20	(29)						

Source: Company data, KGI Research estimates

Figure 4: Revenue mix by product


Source: Company data, KGI Research

Figure 5: Revenue mix by product


Source: Company data, KGI Research

Figure 6: Hon Hai has announced partnerships with traditional & emerging automakers

Company	Announcement	JV ownership	Details
 	Jan-20	50% Hon Hai 50% Fiat Chrysler	<ol style="list-style-type: none"> Initially focusing on Chinese EV market. PSA and FCA merged as Stellantis in January 2021. FIH Mobile, Hon Hai's subsidiary, jointly invested in Mobile Drive with Stellantis to focus on infotainment, telematics and cloud service platform development for smart cockpit.
	May-21	50% FIH Mobile 50% Stellantis	<ol style="list-style-type: none"> Software R&D including AI, navigation, voice assistance, and payment systems. Targets self-designed IC chips adopted in Stellantis vehicles by 2024.
	Feb-20	51% Hon Hai 49% Yulong	<ol style="list-style-type: none"> Hon Hai and Yulong established a JV, Foxtron, in 2020. Expects Foxtron to launch first EV model in 2-3 years.
	Jan-21	50% Hon Hai 50% Geely	JV may provide assembly service for Faraday Future.
	Feb-21	N.A.	<ol style="list-style-type: none"> Hon Hai will work with Fisker in Project PEAR, targeting mass production of another EV model in 4Q23. Hon Hai announced in May 2021 it would establish an EV production site in the US with Fisker. PEAR project for Fisker will be produced at Lordstown's plant in Ohio.
	May-21	60% PTT Group 40% Hon Hai	<ol style="list-style-type: none"> Signed Memorandum of Understanding (MoU) and founded JV to provide EV production platform in Thailand with investment of US\$1.2bn. Targets mass production with annual EV capacity of 50k in 2023-2024. Planned annual EV capacity is 150k.
	Jun-21	N.A.	Signed MoU to work on EV battery exchange.
	Jul-21	N.A.	<ol style="list-style-type: none"> Foxtron signed MoU to work on EV bus. Expects to operate in southern Taiwan in 2022.
	Sep-21	N.A.	<ol style="list-style-type: none"> Hon Hai reached an agreement with Lordstown to cooperate in electric pickup truck production. Hon Hai will purchase Lordstown's Ohio plant and equipment for US\$230mn. Targets mass production of Endurance full-size pickup and revenue contribution in 2H22. Both will pursue JV to co-design and develop vehicles for commercial fleet with MIH platform, and both have the right to commercialize new EV programs in US and internationally. Hon Hai will purchase Lordstown's shares for US\$67.85mn. Maximum annual capacity of 500-600k.
	Feb-22	8.2% Hon Hai	<ol style="list-style-type: none"> Hon Hai will invest SAR562.5mn to acquire 8.2% of JV. Targets sedan and SUV. Will cooperate in EEA, software, and cloud.
	May-22	55% Hon Hai	<ol style="list-style-type: none"> Hon Hai completed OEM manufacturing agreement, signed JV development agreement, and formally acquired Lordstown factory. Hon Hai will invest US\$55mn in the JV and hold 55% of shares. Lordstown Motors will become Hon Hai's first mass-production commercial vehicle customer and start to produce electric pickups in Ohio in 2H22.
	Aug-22	N.A.	<ol style="list-style-type: none"> Hon Hai signed contract manufacturing agreement (CMA) with Monarch Tractor to build next-generation agricultural equipment and battery packs at Foxconn Ohio facility. Foxconn's first CMA following closing of Asset Purchase Agreement (APA). Scheduled to begin full-rate production of Monarch Tractor's MK-V Series in 1Q23 at Foxconn Ohio (~6.2mn square feet).
	Sep-22		<ol style="list-style-type: none"> Hon Hai announced to establish a JV, PT Foxconn Indika Motor (FIM), with PT Mitra Motor Group (MMG), a subsidiary of Indika Energy, through its affiliate Foxteq Singapore Pte. Ltd.. The establishment of FIM is a continuation of the MoU signed in Jan. 2022 by Indika, Foxconn, and others. FIM will conduct manufacturing business for commercial electric vehicles and electric batteries, as well as providing management consultation service.
	Oct-22		<ol style="list-style-type: none"> Hon Hai announced the signing of MOU with INDIEV to manufacture the first INDI One prototype vehicles at Foxconn Ohio. This MOU is the newest EV manufacturing opportunity confirmed for Foxconn after completing the Asset Purchase Agreement ("APA"). Potential collaboration will be disclosed at a later date as both sides remain in negotiation.
	Nov-22		<ol style="list-style-type: none"> Public Investment Fund (PIF) announced the launch of Ceer, a joint venture between PIF and Foxconn. Ceer is the first EV brand in Saudi Arabia and will license component technology from BMW. Ceer will attract over US\$150mn of foreign direct investment, projected to directly contribute US\$8 bn to Saudi Arabia's GDP by 2034.
	Nov-22		<ol style="list-style-type: none"> Hon Hai announced to invest US\$170mn in Lordstown through its subsidiary Foxconn Ventures Pte. Ltd. After the completion of the transaction, Hon Hai will hold all of Lordstown's outstanding preferred stock and 18.3% of its common stock. Hon Hai will become the biggest shareholder of Lordstown and have the right to designate two board members after this deal.

Source: Company data, KGI Research

Figure 7: Hon Hai has announced partnerships with key EV component manufacturers

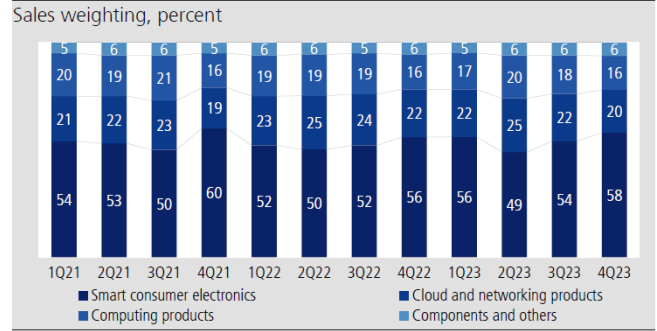
Company	Announcement	JV ownership	Product	Details
	May-21	N.A.	Small IC (power and analog)	1) JV Xsemi will focus on ASP < US\$2 small IC (power and analog). 2) Xsemi will be headquartered in Hsinchu, mainly for small IC sales and channel development.
	Jun-21	N.A.	Battery material	1) Hon Hai invested NT\$995mn to acquire 10.5% Gigasolar's shares. 2) Expects to develop batteries for EV such as LFP, targets launch of MCU and SoC for EV by end-2021, and solid-state lithium ion batteries could enter mass production in 2024.
	Sep-21	N.A.	Battery material	1) On September 28, 2021, Hon Hai signed MoU with Giga Solar, Long Time, and CCCC to develop negative electrode battery material. 2) Targets release of first power battery for E-bus in 2023.
	Jul-21	N.A.	Battery material	1) Hon Hai participated in SES (Solid Energy Systems) private placement. 2) Expects to develop high-energy density battery for EV.
	Jul-21	N.A.	EV drive system Traction motor system	1) On March 18, 2021, Foxtron signed MoU with Nidec to develop EV drive system. 2) JV will be founded and headquartered in Taiwan in 2022. 3) Hon Hai, Foxtron and Nidec will use JV for production and sale of traction motor systems.
	Jan-22	N.A.	Battery cells, module and pack EV and E-scooter Energy storage systems	1) Signed MoU to work on EV battery, EV, E-scooter and energy storage systems with PT. Industri Baterai Indonesia (IBC), Indika and Gogoro. 2) Will cooperate with Indonesia government to mine Nickel for LFP battery. 3) Indonesia government expects overall investment to reach US\$8bn, and production revenue to arrive at US\$100bn in 2030.
	Feb-22	N.A.	Metaverse	1) Signed MoU to work on hardware and software vertical integration to create holistic Metaverse ecosystem. 2) Focused on AR/VR, software, infrastructure, content and cloud services. 3) Hon Hai will help XRSPACE to improve its platform performance of PartyOn and GOXR. 4) Hon Hai plans to invest US\$15mn to acquire 9.09-9.68% in the first stage, and could increase investment to maximum of US\$100mn if needed.
	Apr-22	N.A.	Green Power	1) Hon Hai signed MoU with Shinfox Energy's subsidiary, Fu Wei Power, for green power procurement. 2) Hon Hai purchased 2.36 million units of green power this year and expects to purchase 70 million units by 2030.
	Apr-22	100%	RF semiconductor	1) Hon Hai completed acquisition of arQana's wireless department, which will merge with AchernaTek Inc. to form new company iCana. 2) Becoming global RF semiconductor component supplier to strengthen product development for 5G Sub-6 and millimeter wave. 3) Expanding internet vehicles and electric vehicles market.
	May-22	Hon Hai 5.03%	Semiconductor	1) Hon Hai subsidiary, Big Innovation Holdings Limited (BIH), signed MoU with DNeX Group. 2) Constructing 12-inch wafer fab in Malaysia with monthly capacity of 40K wafers, mainly in 28 and 40 nanometers. 3) Targets production of power components, radio frequency components, and CMOS image sensor products.
	May-22	49% Yageo 51% Hon Hai	Semiconductor	1) Hon Hai participated in NT\$3.1 billion capital increase of XSEMI and will hold 51% of XSEMI. 2) JV will mainly serve system and channel customers. 3) XSEMI participated in NT\$2.8 billion private placement with Fudin; XSEMI will be the largest shareholder at 30.08%. Targets complete line of medium and high-voltage Si MOSFETs to supply EV and industrial semiconductor products.
	Jul-22	10% Hon Hai	Semiconductor material	1) Hon Hai invested NT\$500 million to acquire 10% of shares. 2) Cooperation will help Hon Hai subsidiary Hon Young Semiconductor to obtain SiC substrate and strengthen vertical integration of supply chain for electric vehicles and semiconductors.
	Jul-22			1) Hon Hai signed MoU with NXP to jointly develop platforms for new generation of smart connected vehicles. 2) Hon Hai will integrate NXP's S32 family of processors into its EV platform. 3) Hon Hai and NXP outlined more than 10 automotive products for first stage.
	Jan-23		Connector	1) Hon Hai's Hon Teng Precision Technology (FIT) announced to acquire PRETTL SWH Group for 186mn euros. 2) PRETTL SWH Group is a German firm assisting customers in the development and manufacture of high-end automotive sensor wiring harnesses and connectors and automotive power solutions. 3) This acquisition is estimated to bring FIT an annual revenue contribution of about 350-400mn euros in the short term and is expected to improve FIT's overall gross margin on better product mix in the future.
	May-23		Semiconductor	1) Infineon and Hon Hai sign MoU to partner on SiC collaboration in EV development. 2) The MoU addresses their collaboration on the implementation of SiC technology in automotive high-power applications including traction inverters, onboard chargers, and DC-DC converters. 3) A system application center in Taiwan is expected to be established in 2023 to further expand the scope of their cooperation.
	Jun-23	50% Hon Hai 50% Stellantis	Semiconductor	1) Stellantis and Hon Hai announced to create SiliconAuto, a JV to design and sell automotive semiconductors. 2) SiliconAuto's products will start to tailor chips for Hon Hai, Stellantis and other customers in 2026.
	Jul-23		Digital Cockpit, Battery Management System (BMS)	1) Hon Hai and Analog Devices signed a MoU to jointly develop the next-generation digital car cockpit and BMS. 2) The two firms aims to create a smarter mobility ecosystem by advancing software-defined vehicles.
	Jul-23	50% Hon Hai 50% ZF Group	Chassis	1) Foxconn acquires 50% stake in ZF Chassis Modules GmbH, a unit of ZF Group with an enterprise value of €1bn. 2) The partnership focuses on the development of passenger car chassis system. 3) This strategic partnership will leverage capabilities of the two parties and expand the range of product offerings in ICE/EV space, and seeks to enlarge customer base for the both.
	Jan-24	40% Hon Hai	Semiconductor	1) Hon Hai and HCL Group jointly set a semiconductor OSAT in India. 2) The manufacturing site will locate in Karnataka, with a focused on small and medium-outline package.

Source: Company data, KGI Research

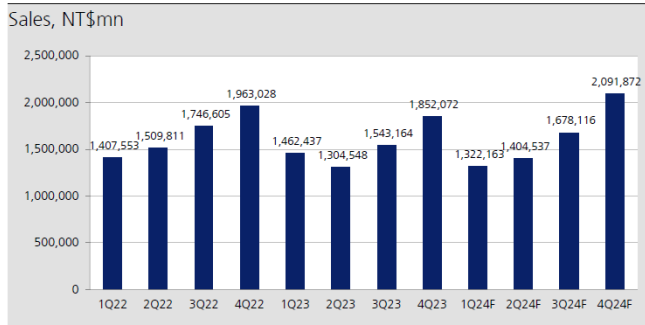
Figure 8: Company profile

Founded in 1974, Hon Hai is the world's largest electronic manufacturing service (EMS) company, principally engaged in the assembly and production of computers, consumer electronics, servers, and networking equipment. It also has several investment arms spanning semiconductors, machinery modules, and industrial internet. The firm operates businesses domestically and overseas.

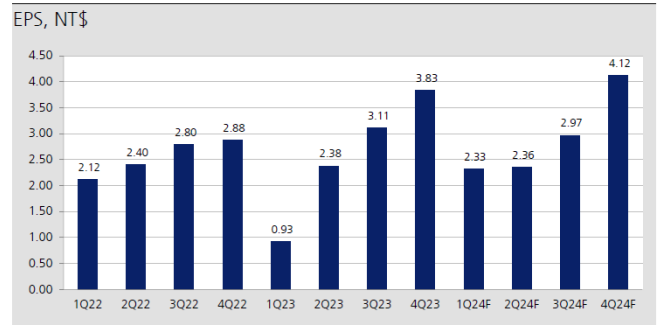
Source: Company data, KGI Research

Figure 9: Sales by segment


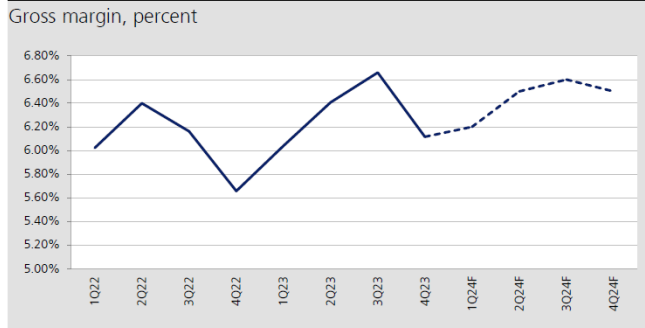
Source: Company data, KGI Research

Figure 10: Sales


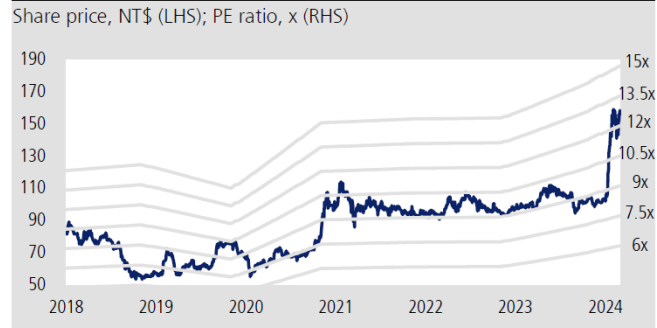
Source: KGI Research

Figure 11: EPS


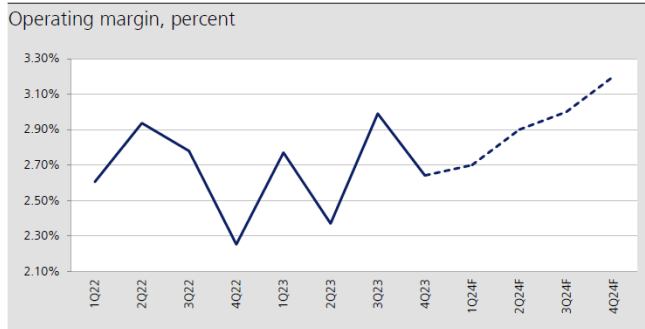
Source: KGI Research

Figure 12: Gross Margin


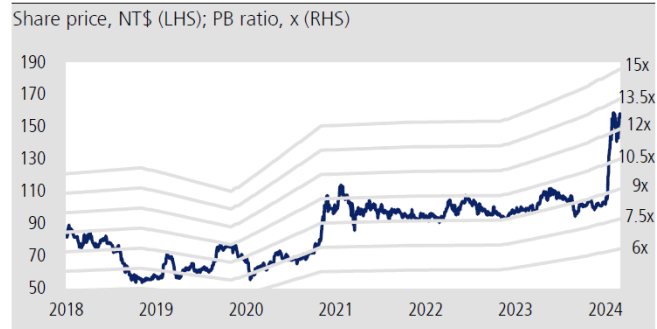
Source: KGI Research

Figure 13: 12M forward PE band


Source: TEJ; KGI Research estimates

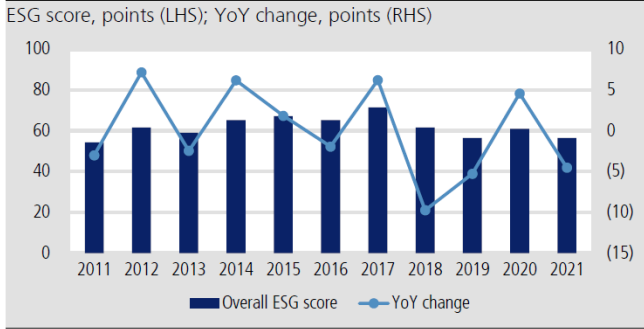
Figure 14: Operating Margin


Source: KGI Research

Figure 15: 12M forward PB band


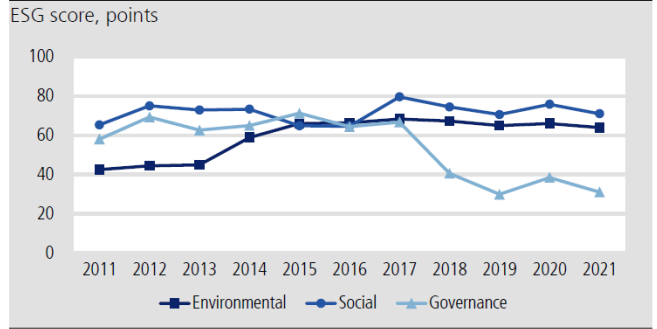
Source: TEJ; KGI Research estimates

Figure 16: Overall ESG score



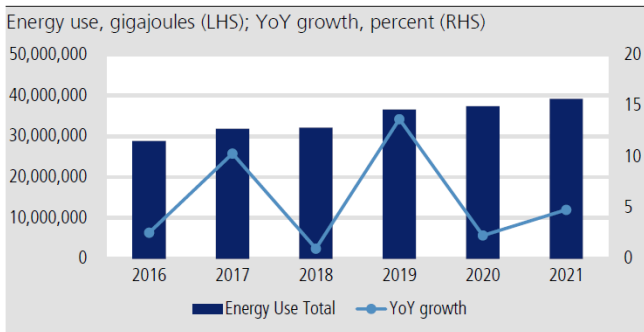
Source: Refinitiv, Company data

Figure 17: ESG score



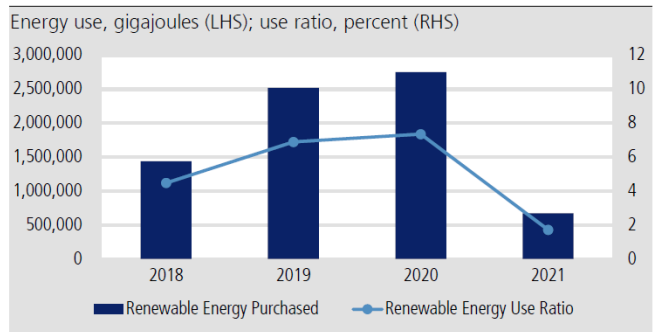
Source: Refinitiv, Company data

Figure 18: Energy use



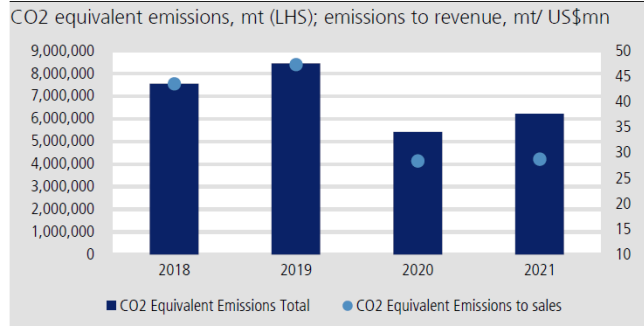
Source: Refinitiv, Company data

Figure 19: Renewable energy



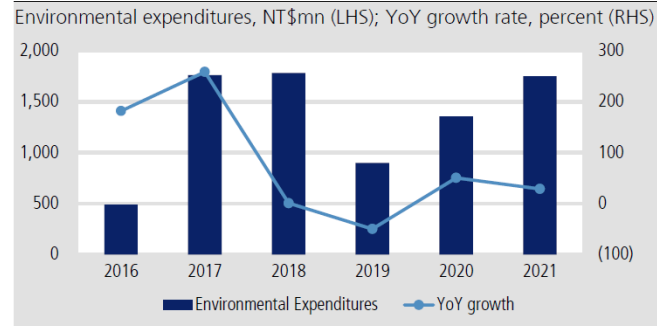
Source: Refinitiv, Company data

Figure 20: CO2 equivalent emissions



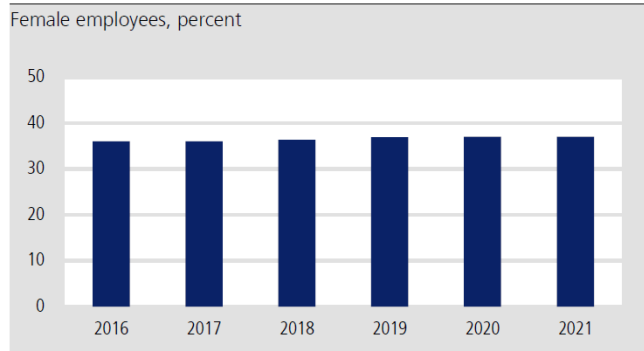
Source: Refinitiv, Company data

Figure 21: Environmental expenditures



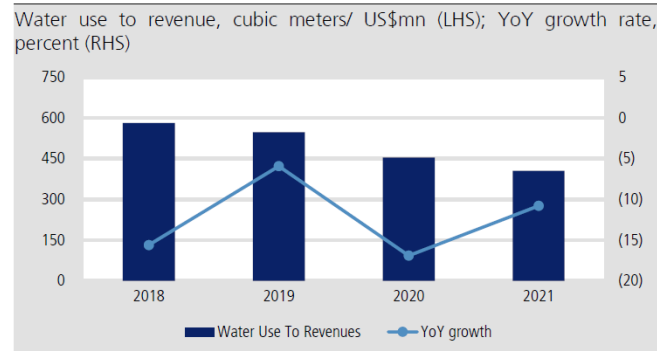
Source: Refinitiv, Company data

Figure 22: Gender diversification



Source: Refinitiv, Company data

Figure 23: Water use to revenue



Source: Refinitiv, Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23A	Dec-24F	Dec-25F
Income statement (NT\$mn)											
Revenue	1,462,437	1,304,548	1,543,164	1,852,072	1,322,163	1,404,537	1,678,116	2,091,872	6,162,221	6,496,688	7,772,408
Cost of goods sold	(1,374,103)	(1,220,971)	(1,440,410)	(1,738,790)	(1,240,189)	(1,313,242)	(1,567,360)	(1,955,901)	(5,774,274)	(6,076,691)	(7,305,702)
Gross profit	88,334	83,577	102,753	113,282	81,974	91,295	110,756	135,972	387,947	419,996	466,706
Operating expenses	(47,811)	(52,652)	(56,604)	(64,352)	(46,276)	(50,563)	(60,412)	(69,032)	(221,419)	(226,283)	(236,834)
Operating profit	40,523	30,925	46,150	48,930	35,698	40,732	50,343	66,940	166,528	193,713	229,872
Depreciation of fixed assets	(18,039)	(19,746)	(20,828)	(20,059)	(45,039)	(45,039)	(45,039)	(45,039)	(78,672)	(180,156)	(199,584)
Amortisation of intangible assets	(1,502)	(1,429)	(1,574)	(1,229)	(1,348)	(1,348)	(1,348)	(1,348)	(5,734)	(5,390)	(5,390)
EBITDA	60,064	52,101	68,552	70,218	82,085	87,118	96,730	113,326	250,934	379,259	434,847
Interest income	16,530	22,572	20,869	21,730	21,049	21,049	21,049	21,049	81,700	84,197	81,515
Investment income	356	1,269	2,835	762	2,750	2,750	2,750	2,750	5,222	11,000	11,000
Other non-op income	1,032	9,744	5,111	11,715	3,000	1,500	700	800	27,603	6,000	4,000
Non-operating income	17,918	33,585	28,815	34,207	26,799	25,299	24,499	24,599	114,525	101,197	96,515
Interest expense	(14,752)	(16,805)	(17,747)	(16,239)	(14,715)	(14,715)	(14,715)	(14,715)	(65,543)	(58,859)	(54,692)
Investment loss	(18,952)	-	-	-	(3,300)	(3,300)	(3,300)	(3,300)	(18,952)	(13,201)	(13,163)
Other non-op expenses	(4,334)	-	-	-	(1,500)	(1,000)	(700)	(800)	(4,334)	(4,000)	(4,000)
Non-operating expenses	(38,038)	(16,805)	(17,747)	(16,239)	(19,515)	(19,015)	(18,715)	(18,815)	(88,829)	(76,061)	(71,855)
Pre-tax profit	20,403	47,705	57,217	66,898	42,982	47,016	56,127	72,724	192,224	218,849	254,532
Current taxation	(6,804)	(12,262)	(9,727)	(8,641)	(8,596)	(11,754)	(11,225)	(11,100)	(37,435)	(42,676)	(49,634)
Minorities	(775)	(2,443)	(4,362)	(5,112)	(2,113)	(2,600)	(3,738)	(4,550)	(12,691)	(13,000)	(13,000)
Normalised net profit	12,825	33,001	43,128	53,145	32,273	32,662	41,164	57,074	142,098	163,174	191,898
Extraordinary items	(0)	(0)	(0)	0	-	-	-	-	-	-	-
Net profit	12,825	33,001	43,128	53,145	32,273	32,662	41,164	57,074	142,098	163,174	191,898
EPS (NT\$)	0.93	2.38	3.11	3.83	2.33	2.36	2.97	4.12	10.25	11.77	13.84
Margins (%)											
Gross profit margin	6.0	6.4	6.7	6.1	6.2	6.5	6.6	6.5	6.3	6.5	6.0
Operating margin	2.8	2.4	3.0	2.6	2.7	2.9	3.0	3.2	2.7	3.0	3.0
EBITDA margin	4.1	4.0	4.4	3.8	6.2	6.2	5.8	5.4	4.1	5.8	5.6
Pretax profit margin	1.4	3.7	3.7	3.6	3.3	3.3	3.3	3.5	3.1	3.4	3.3
Net profit margin	0.9	2.5	2.8	2.9	2.4	2.3	2.5	2.7	2.3	2.5	2.5
Margins (%)											
Gross profit margin	6.0	6.4	6.7	6.1	6.2	6.5	6.6	6.5	6.3	6.5	6.0
Operating margin	2.8	2.4	3.0	2.6	2.7	2.9	3.0	3.2	2.7	3.0	3.0
EBITDA margin	4.1	4.0	4.4	3.8	6.2	6.2	5.8	5.4	4.1	5.8	5.6
Pretax profit margin	1.4	3.7	3.7	3.6	3.3	3.3	3.3	3.5	3.1	3.4	3.3
Net profit margin	0.9	2.5	2.8	2.9	2.4	2.3	2.5	2.7	2.3	2.5	2.5
Sequential growth (%)											
Revenue growth	(25.5)	(10.8)	18.3	20.0	(28.6)	6.2	19.5	24.7			
Gross profit growth	(20.5)	(5.4)	22.9	10.2	(27.6)	11.4	21.3	22.8			
Operating profit growth	(8.4)	(23.7)	49.2	6.0	(27.0)	14.1	23.6	33.0			
EBITDA growth	(8.5)	(13.3)	31.6	2.4	16.9	6.1	11.0	17.2			
Pretax profit growth	(61.1)	133.8	19.9	16.9	(35.7)	9.4	19.4	29.6			
Net profit growth	(67.9)	157.3	30.7	23.2	(39.3)	1.2	26.0	38.6			
YoY growth (%)											
Revenue growth	3.9	(13.6)	(11.6)	(5.7)	(9.6)	7.7	8.7	12.9	(7.0)	5.4	19.6
Gross profit growth	4.2	(13.5)	(4.5)	2.0	(7.2)	9.2	7.8	20.0	(3.0)	8.3	11.1
Operating profit growth	10.5	(30.2)	(4.9)	10.6	(11.9)	31.7	9.1	36.8	(4.2)	16.3	18.7
EBITDA growth	11.1	(22.7)	8.5	6.9	36.7	67.2	41.1	61.4	0.3	51.1	14.7
Pretax profit growth	(44.7)	1.6	11.8	27.5	110.7	(1.4)	(1.9)	8.7	2.5	13.9	16.3
Net profit growth	(56.5)	(0.9)	11.3	32.9	151.7	(1.0)	(4.6)	7.4	0.4	14.8	17.6

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total assets	3,908,878	4,133,974	3,939,789	4,062,611	4,356,539
Current assets	3,034,417	3,200,506	3,035,966	3,215,392	3,617,613
Cash & ST securities	1,110,661	1,084,732	1,350,230	1,448,654	1,510,143
Inventory	672,145	939,022	730,765	766,937	924,576
Accounts receivable	1,161,219	1,098,690	872,270	917,102	1,100,194
Other current assets	90,393	78,062	82,700	82,700	82,700
Non-current assets	874,461	933,469	903,823	847,219	738,926
LT investments	429,600	435,825	393,134	401,685	392,976
Net fixed assets	310,107	362,405	393,967	328,812	229,228
Other assets	134,754	135,239	116,722	116,722	116,722
Total liabilities	2,335,618	2,483,443	2,253,545	2,286,157	2,476,282
Current liabilities	1,997,680	2,113,814	1,909,335	1,929,295	2,101,306
Accounts payable	1,076,178	1,068,941	893,119	937,327	1,129,988
Interest bearing ST liabilities	608,958	647,194	648,993	613,643	577,860
Other current liabilities	312,544	397,678	367,222	378,325	393,458
Non-current liabilities	337,938	369,630	344,211	356,862	374,976
Long-term debt	275,600	301,017	271,625	284,277	302,391
Other L-T liabilities	44,121	51,151	55,874	55,874	55,874
Total equity	1,573,260	1,650,531	1,686,244	1,776,454	1,880,257
Share capital	138,630	138,630	138,630	138,630	138,630
Retained earnings reserve	871,193	925,890	987,704	1,064,914	1,155,717
Minority interests	192,803	199,986	193,135	206,135	219,135
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Growth					
Revenue growth	11.9%	10.6%	(7.0%)	5.4%	19.6%
Operating profit growth	34.4%	16.7%	(4.2%)	16.3%	18.7%
EBITDA growth	27.6%	11.5%	0.3%	51.1%	14.7%
Net profit growth	36.9%	1.6%	0.4%	14.8%	17.6%
EPS growth	36.9%	1.6%	0.4%	14.8%	17.6%
Profitability					
Gross profit margin	6.0%	6.0%	6.3%	6.5%	6.0%
Operating margin	2.5%	2.6%	2.7%	3.0%	3.0%
EBITDA margin	3.7%	3.8%	4.1%	5.8%	5.6%
Net profit margin	2.3%	2.1%	2.3%	2.5%	2.5%
Return on average assets	3.7%	3.5%	3.5%	4.1%	4.6%
Return on average equity	10.4%	10.0%	9.7%	10.7%	11.9%
Stability					
Gross debt to equity	56.2%	57.4%	54.6%	50.5%	46.8%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	9.8	6.4	3.9	4.7	5.7
Interest & ST debt coverage (x)	0.2	0.2	0.2	0.2	0.2
Cash flow interest coverage(x)	(4.5)	3.2	6.8	5.3	4.6
Cash flow/int. & ST debt (x)	(0.2)	0.2	0.6	0.5	0.4
Current ratio (x)	1.5	1.5	1.6	1.7	1.7
Quick ratio (x)	1.2	1.1	1.2	1.3	1.3
Net debt (NT\$m)	(174,860)	(114,115)	(277,044)	(398,167)	(477,325)
Per share data					
EPS (NT\$)	10.05	10.21	10.25	11.77	13.84
CFPS (NT\$)	(7.09)	7.91	32.14	22.66	18.10
BVPS (NT\$)	99.58	104.63	107.70	113.27	119.82
Adj BVPS (NT\$)	99.59	104.65	107.72	113.27	119.82
SPS (NT\$)	432.43	478.09	444.56	468.64	560.66
EBITDA/share (NT\$)	16.19	18.05	18.10	27.36	31.37
Cash DPS (NT\$)	5.20	5.30	5.40	6.20	7.29
Activity					
Sales / avg assets	1.58	1.65	1.53	1.62	1.85
Days receivable	70.7	60.5	51.7	51.7	51.7
Days inventory	43.6	55.0	46.2	46.2	46.2
Days payable	69.7	62.7	56.5	56.5	56.5
Cash cycle	44.5	52.9	41.4	41.4	41.4

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue	5,994,174	6,626,997	6,162,221	6,496,688	7,772,408
Cost of goods sold	(5,632,047)	(6,226,912)	(5,774,274)	(6,076,691)	(7,305,702)
Gross profit	362,127	400,085	387,947	419,996	466,706
Operating expenses	(213,168)	(226,297)	(221,419)	(226,283)	(236,834)
Operating profit	148,959	173,788	166,528	193,713	229,872
Non-operating income	66,044	64,268	114,525	101,197	96,515
Interest income	32,456	43,303	81,700	84,197	81,515
Investment income	28,660	11,063	5,222	11,000	11,000
Other non-op income	4,928	9,902	27,603	6,000	4,000
Non-operating expenses	(21,432)	(50,544)	(88,829)	(76,061)	(71,855)
Interest expense	(21,958)	(34,736)	(65,543)	(58,859)	(54,692)
Investment loss	-	-	(18,952)	(13,201)	(13,163)
Other non-op expenses	527	(15,808)	(4,334)	(4,000)	(4,000)
Pre-tax profit	193,572	187,511	192,224	218,849	254,532
Current taxation	(39,749)	(36,440)	(37,435)	(42,676)	(49,634)
Minorities	(14,503)	(9,589)	(12,691)	(13,000)	(13,000)
Extraordinary items	-	0	(0)	-	-
Net profit	139,320	141,483	142,098	163,174	191,898
EBITDA	224,441	250,248	250,934	379,259	434,847
EPS (NT\$)	10.05	10.21	10.25	11.77	13.84

Cash flow

NT\$m	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Operations cash flow	(98,212)	109,708	445,553	314,125	250,966
Net profit	139,320	141,483	142,098	163,174	191,898
Depreciation & amortisation	75,481	76,460	84,406	185,546	204,975
Decrease in working capital	(302,448)	(197,434)	247,995	(36,795)	(148,070)
Other operating cash flow	(10,565)	89,199	(28,946)	2,201	2,163
Investing cash flow	(92,083)	(45,440)	(137,874)	(131,143)	(98,844)
Sale of ST investment	(31,480)	29,944	(132,622)	-	-
New investments	(7,662)	(45,351)	23,845	(10,753)	6,546
Capital expenditure	(92,296)	(97,935)	(111,745)	(115,000)	(100,000)
Others investing cashflow	39,355	67,902	82,647	(5,390)	(5,390)
Free cash flow	(206,247)	(84,746)	349,020	184,299	136,561
Financing cash flow	24,281	(87,872)	(160,638)	(84,559)	(90,632)
Increase in short term debt	99,435	23,682	(74,237)	(40,000)	(40,000)
Increase in long term loans	28,293	7,242	27,361	17,301	22,331
New ordinary shares issued	5,000	(7,763)	4,805	-	-
Ordinary dividends paid	(58,745)	(79,026)	(80,722)	(74,860)	(85,963)
Other financing cashflow	(49,702)	(32,006)	(37,845)	13,000	13,000
Forex effects	(7,363)	26,512	(11,704)	-	-
Total cash generated	(173,377)	2,909	135,336	98,424	61,490

ROIC

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	3.6%	3.4%	3.6%	3.5%	3.0%
= Operating margin	2.5%	2.6%	2.7%	3.0%	3.0%
1 / (Working capital/revenue	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.1	0.1	0.1	0.1	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	6.9	6.4	7.4	8.2	9.4
Operating margin	2.5%	2.6%	2.7%	3.0%	3.0%
x Capital turnover	6.9	6.4	7.4	8.2	9.4
x (1 - tax rate)	79.5%	80.6%	80.5%	80.5%	80.5%
= After-tax ROIC	13.5%	13.5%	16.1%	19.6%	22.3%

Source: Company data, KGI Research estimates

Hon Hai – Recommendation & target price history


Date	Rating	Target	Price
2024-03-15	Outperform	164.0	132.0
2023-11-07	Outperform	126.0	96.1
2023-10-19	Outperform	140.0	103.5
2023-08-14	Outperform	140.0	110.0
2023-07-06	Outperform	145.0	105.5
2023-05-12	Neutral	106.0	102.5
2023-03-16	Outperform	117.0	102.0
2023-03-02	Outperform	117.0	102.5
2022-12-06	Outperform	117.0	103.0
2022-11-11	Outperform	117.0	100.0

Source: TEJ, KGI Research

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