

Hon Hai (2317.TW/2317 TT)

1Q24 EPS a miss, but positive outlook intact

FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of May 14 (NT\$)	172.0
12M target price (NT\$)	205.0
Previous target price (NT\$)	205.0
Unchanged (%)	0.0
Upside (%)	19.2

Key message

- 1Q24 EPS missed on recognition of Sharp (JP) investment losses, but gross and operating margins beat.
- 2Q24F sales growth to come from computing, cloud & components segments; cloud to continue to drive sales & earnings growth in 2024-25F.
- GB200 order wins from CSPs and enterprise clients in 2025F to drive EPS growth, while consumer electronics and computing sales will stabilize on global footprint advantages.

Trading data

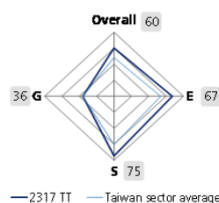
Mkt cap (NT\$bn/US\$mn)	2,384 / 73,564
Outstanding shares (mn)	13,863
Foreign ownership (mn)	5,687
3M avg. daily trading (mn)	91.81
52-week trading range (NT\$)	94.50 – 172.0

Performance	3M	6M	12M
Absolute (%)	69.5	72	67.8
Relative (%)	53.5	47.9	32.4

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	1.59F	2.29F	3.09F	4.41F

ESG score card



Source: Refinitiv

Event

Hon Hai posted 1Q24 EPS of NT\$1.59, below our estimate, though margins beat. It is positive on 2Q24F outlook with sales of all businesses to rise QoQ (except for flattish consumer electronics (CE) on iPhone transition period). The full-year outlook is also positive, with cloud and components businesses being the drivers.

Impact

1Q24 EPS missed on impact from Sharp (JP). 1Q24 EPS was NT\$1.59, down 59% QoQ but up 72% YoY, missing consensus and our forecast on higher non-op losses, mainly from impairment loss on the Sharp investment. Gross margin of 6.3% and an operating margin of 2.8% both beat consensus and our estimate, thanks to an improved revenue mix (CE weighting down to 48%, vs. 58% in 4Q23 and 56% in 1Q23, and cloud weighting up to 28%, vs. 20% in 4Q23 and 22% in 1Q23), and good inventory control. However, Hon Hai recognized a NT\$10.5bn one-time impairment loss on its Sharp investment in 1Q24, which weighed on its bottom line. Management said the worst is passed for Sharp following its light-asset transformation, with Sakai Display Product's (SDP; JP) LCD TV panel plant turning into an AI datacenter; thus, the negative impact on Hon Hai will become minimal.

2Q24F sales growth guidance better, but gross margin to miss; AI server to drive 2H24-2025F sales & EPS growth. We think the firm's 2Q24F sales growth slightly beat, looking to rise 5-15% QoQ and YoY for the major businesses of cloud, computing and components (except for flat CE sales QoQ). Cloud sales will be bolstered by growing GPU supply for strong AI server demand, while computing sales will be supported by new MacBook and iPad model launches. CE is under model transition. Due to a higher weighting of PC and assembly sales (low gross margins), Hon Hai says 2Q24F gross margin will come under pressure, likely down QoQ and below our expectation. However, with reduced non-op headwinds in 2Q24F, we forecast EPS to grow QoQ. For the full-year, Hon Hai reiterates sales growth drivers will be cloud and components, with over 15% growth, while computing and CE sales will be flattish. We raise 2Q24F sales growth to 9% QoQ and 2024F growth to 7% YoY, while we project cloud/ networking sales will grow by 20-25% this year from NT\$1.3-1.4tn in 2023, with AI server sales from CSPs and brands growing by more than 50% and 30%, respectively. Riding on the AI wave, Hon Hai expects 50% of the potential TAM of AI of US\$1tn by 2032F to come from hardware (US\$500bn, or NT\$16tn), and that it will play a dominate role in the market. We expect Hon Hai's GB200 rack design will create strong growth for cloud sales with contribution up to around 40% from 28% in 1Q24 and 22% in 2023. To reflect a lower 1Q24 EPS (due to non-op), we cut 2024F EPS to NT\$11.38 (up 11% YoY), but raise 2025F EPS to NT\$14.19, up 25% YoY.

Valuation & Action

We maintain our target price of NT\$205, based on 16x 2024-25F EPS (for a 2023-25F EPS CAGR of 16%), and our Outperform rating.

Risks

Slow EV orders and components development; weakening global demand.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$mn)	5,994,174	6,626,997	6,162,221	6,562,658	7,894,036
Gross profit (NT\$mn)	362,127	400,085	387,947	421,539	473,989
Operating profit (NT\$mn)	148,959	173,788	166,528	192,393	233,488
Net profit (NT\$mn)	139,320	141,483	142,098	157,702	196,783
EPS (NT\$)	10.05	10.21	10.25	11.38	14.19
Cash DPS (NT\$)	5.20	5.30	5.40	5.99	7.48
EPS growth (%)	36.9	1.6	0.4	11.0	24.8
PE (x)	17.1	16.9	16.8	15.1	12.1
PB (x)	1.7	1.6	1.6	1.5	1.4
EV/EBITDA (x)	8.0	7.5	7.1	5.6	4.8
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	3.0	3.1	3.1	3.5	4.3
Return on average equity (%)	10.4	10.0	9.7	10.3	12.2

Source: Company data, KGI Research estimates

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

NT\$m	1Q24								2Q24F							
	Actual	KGI forecast	Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)		Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	
Sales	1,323,992	1,322,163	0.1	(28.5)	(9.5)	1,372,746	(3.6)		1,438,998	1,404,537	2.5	8.7	10.3	1,414,828	1.7	
Gross profits	83,662	81,974	2.1	(26.1)	(5.3)	84,039	(0.4)		89,218	91,295	(2.3)	6.6	6.7	91,030	(2.0)	
Operating income	36,751	35,698	2.9	(24.9)	(9.3)	35,229	4.3		37,414	40,732	(8.1)	1.8	21.0	38,039	(1.6)	
Pretax Income	32,509	43,282	(24.9)	(51.4)	59.3	40,649	(20.0)		45,729	46,716	(2.1)	40.7	(4.1)	46,394	(1.4)	
Net income	22,009	32,513	(32.3)	(58.6)	71.6	29,091	(24.3)		31,696	32,437	(2.3)	44.0	(4.0)	32,226	(1.6)	
EPS (NT\$)	1.59	2.35	(32.3)	(58.6)	71.6	2.10	(24.3)		2.29	2.34	(2.3)	44.0	(3.9)	2.32	(1.6)	
Gross margin (%)	6.3	6.2	0.1 ppts	0.2 ppts	0.3 ppts	6.1	0.2 ppts		6.2	6.5	(0.3)ppts	(0.1)ppts	(0.2)ppts	6.4	(0.2)ppts	
OP margin (%)	2.8	2.7	0.1 ppts	0.1 ppts	0.0 ppts	2.6	0.2 ppts		2.6	2.9	(0.3)ppts	(0.2)ppts	0.2 ppts	2.7	(0.1)ppts	
Net margin (%)	1.7	2.5	(0.8)ppts	(1.2)ppts	0.8 ppts	2.1	(0.5)ppts		2.2	2.3	(0.1)ppts	0.5 ppts	(0.3)ppts	2.3	(0.1)ppts	

Source: Company data, Bloomberg, KGI Research

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

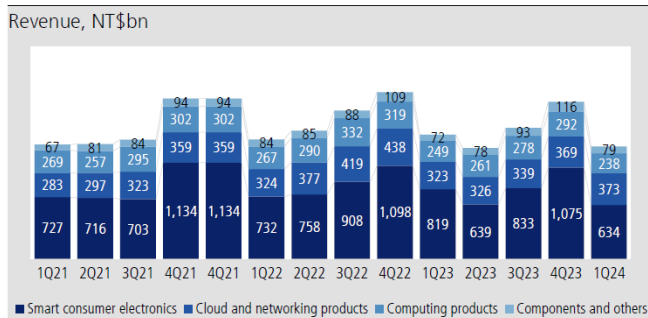
NT\$m	2024F							2025F						
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)		Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	
Sales	6,562,658	6,496,688	1.0	6.5	6,564,949	(0.0)		7,894,036	7,772,408	1.6	20.3	7,480,822	5.5	
Gross profit	421,539	419,996	0.4	8.7	421,141	0.1		473,989	466,706	1.6	12.4	485,431	(2.4)	
Operating income	192,393	193,713	(0.7)	15.5	189,410	1.6		233,488	229,872	1.6	21.4	228,896	2.0	
Pretax Income	212,052	218,849	(3.1)	10.3	217,973	(2.7)		260,600	254,532	2.4	22.9	257,051	1.4	
Net income	157,702	163,174	(3.4)	11.0	159,671	(1.2)		196,783	191,898	2.5	24.8	187,277	5.1	
EPS (NT\$)	11.38	11.77	(3.4)	11.0	11.52	(1.2)		14.19	13.84	2.5	24.8	13.51	5.1	
Gross margin (%)	6.4	6.5	(0.0)ppts	0.1 ppts	6.4	0.0 ppts		6.0	6.0	(0.0)ppts	(0.4)ppts	6.5	(0.5)ppts	
OP margin (%)	2.9	3.0	(0.1)ppts	0.2 ppts	2.9	0.0 ppts		3.0	3.0	0.0 ppts	0.0 ppts	3.1	(0.1)ppts	
Net margin (%)	2.4	2.5	(0.1)ppts	0.1 ppts	2.4	(0.0)ppts		2.5	2.5	0.0 ppts	0.1 ppts	2.5	(0.0)ppts	

Source: Company data, Bloomberg, KGI Research estimates

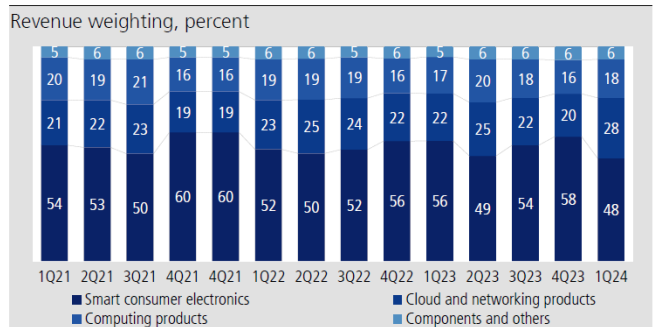
Figure 3: Product mix

Sales (NT\$bn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	732	758	908	1,098	819	639	833	1,075	634	2,593	3,280	3,496	3,366	3,279	3,371
Cloud & networking	324	377	419	438	323	326	339	369	373	1,316	1,267	1,557	1,358	1,689	2,794
Computing	267	290	332	319	249	261	278	292	238	1,136	1,114	1,208	1,079	1,155	1,216
Components & others	84	85	87	109	72	78	93	116	79	313	334	365	359	439	513
Total	1,408	1,510	1,747	1,963	1,462	1,305	1,543	1,852	1,324	5,358	5,994	6,627	6,162	6,563	7,894
Weighting (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	52	50	52	56	56	49	54	58	48	48	55	53	54	50	43
Cloud & networking	23	25	24	22	22	25	22	20	28	25	21	24	22	26	35
Computing	19	19	19	16	17	20	18	16	18	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	1Q24	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	1	6	29	(3)	12	(16)	(8)	(2)	(23)	(2)	27	7	(4)	(3)	3
Cloud & networking	14	27	29	20	(0)	(14)	(19)	(16)	15	5	(4)	23	(13)	24	65
Computing	2	12	13	8	(7)	(10)	(16)	(8)	(4)	2	(2)	8	(11)	7	5
Components & others	14	4	4	15	(15)	(7)	6	7	10	(3)	7	9	(2)	22	17
Total	4	12	24	4	4	(14)	(12)	(6)	(9)	0	12	11	(7)	6	20
QoQ (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	(36)	4	20	21	(25)	(22)	30	29	(41)						
Cloud & networking	(11)	17	11	5	(26)	1	4	9	1						
Computing	(10)	8	15	(4)	(22)	5	6	5	(18)						
Components & others	(11)	0	3	25	(34)	9	18	25	(32)						
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	1) Initially focusing on Chinese EV market. 2) PSA and FCA merged as Stellantis in January 2021.
	May-21	50% FIH Mobile 50% Stellantis	3) 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. 4) Software R&D including AI, navigation, voice assistance, and payment systems. 5) Targets self-designed IC chips adopted in Stellantis vehicles by 2024.
	Feb-20	51% Hon Hai 49% Yulong	1) Hon Hai and Yulong established a JV, Foxtron, in 2020. 2) 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.	1) Hon Hai will work with Fisker in Project PEAR, targeting mass production of another EV model in 4Q23. 2) Hon Hai announced in May 2021 it would establish an EV production site in the US with Fisker. 3) PEAR project for Fisker will be produced at Lordstown's plant in Ohio.
	May-21	60% PTT Group 40% Hon Hai	1) Signed Memorandum of Understanding (MoU) and founded JV to provide EV production platform in Thailand with investment of US\$1-2bn. 2) Targets mass production with annual EV capacity of 50k in 2023-2024. 3) Planned annual EV capacity is 150k.
	Jun-21	N.A.	Signed MoU to work on EV battery exchange.
	Jul-21	N.A.	1) Foxtron signed MoU to work on EV bus. 2) Expects to operate in southern Taiwan in 2022.
	Sep-21	N.A.	1) Hon Hai reached an agreement with Lordstown to cooperate in electric pickup truck production. 2) Hon Hai will purchase Lordstown's Ohio plant and equipment for US\$230mn. 3) Targets mass production of Endurance full-size pickup and revenue contribution in 2H22. 4) Both will pursue JV to co-design and develop vehicles for commercial fleet with MIH platform, and both have the right to commercialize
	Feb-22	8.2% Hon Hai	1) Hon Hai will invest SAR562.5mn to acquire 8.2% of JV. 2) Targets sedan and SUV. 3) Will cooperate in EEA, software, and cloud.
	May-22	55% Hon Hai	1) Hon Hai completed OEM manufacturing agreement, signed JV development agreement, and formally acquired Lordstown factory. 2) Hon Hai will invest US\$55mn in the JV and hold 55% of shares. 3) 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.	1) Hon Hai signed contract manufacturing agreement (CMA) with Monarch Tractor to build next-generation agricultural equipment and battery packs at Foxconn Ohio facility. 2) Foxconn's first CMA following closing of Asset Purchase Agreement (APA). 3) Scheduled to begin full-rate production of Monarch Tractor's MK-V Series in 1Q23 at Foxconn Ohio (~6.2mn square feet).
	Sep-22		1) 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.. 2) The establishment of FIM is a continuation of the MoU signed in Jan. 2022 by Indika, Foxconn, and others. 3) FIM will conduct manufacturing business for commercial electric vehicles and electric batteries, as well as providing management consultation service.
	Oct-22		1) Hon Hai announced the signing of MOU with INDIEV to manufacture the first INDI One prototype vehicles at Foxconn Ohio. 2) This MOU is the newest EV manufacturing opportunity confirmed for Foxconn after completing the Asset Purchase Agreement ("APA"). 3) Potential collaboration will be disclosed at a later date as both sides remain in negotiation.
	Nov-22		1) Public Investment Fund (PIF) announced the launch of Ceer, a joint venture between PIF and Foxconn. 2) Ceer is the first EV brand in Saudi Arabia and will license component technology from BMW. 3) 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		1) Hon Hai announced to invest US\$170mn in Lordstown through its subsidiary Foxconn Ventures Pte. Ltd. 2) After the completion of the transaction, Hon Hai will hold all of Lordstown's outstanding preferred stock and 18.3% of its common stock. 3) 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

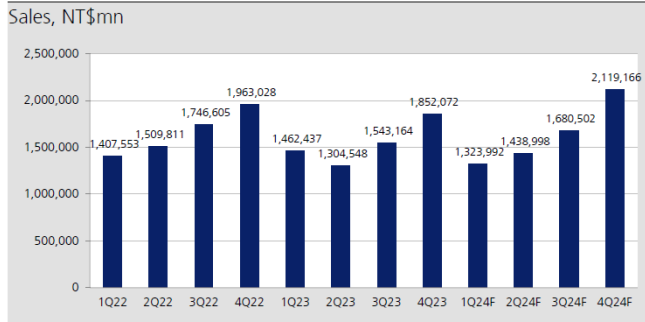
Company	Announcement	JV ownership	Product	Details
	May-21	N.A.	Small IC (power and analog)	1) JV Xsemi will focus on ASP < US\$2 small IC (power and analog). 2) Xsemi will be headquartered in Hsinchu, mainly for small IC sales and channel development.
	Jun-21	N.A.	Battery material	1) Hon Hai invested 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 CSCC 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 AcherarTek 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

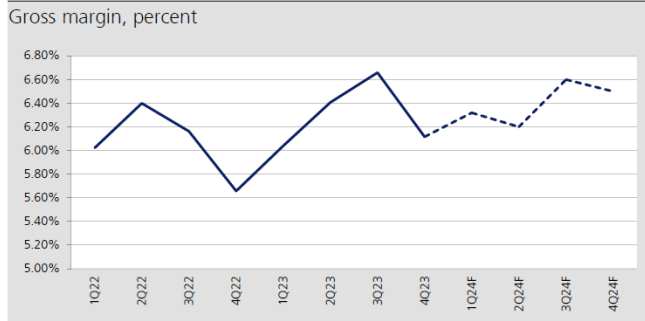
Figure 8: Company profile

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.

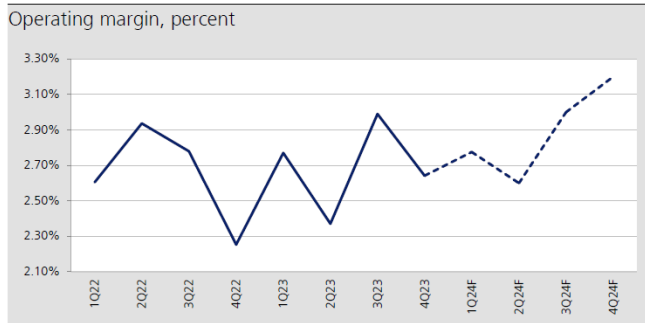
Source: Company data, KGI Research

Figure 10: Sales


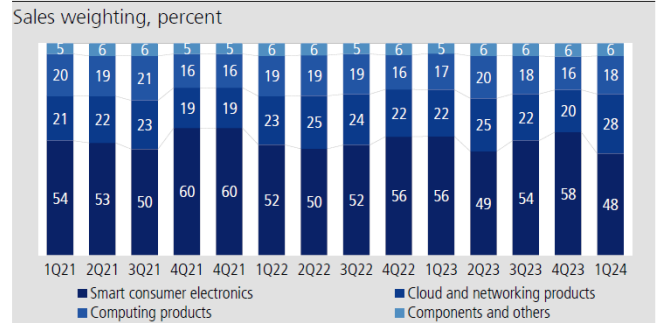
Source: KGI Research

Figure 12: Gross Margin


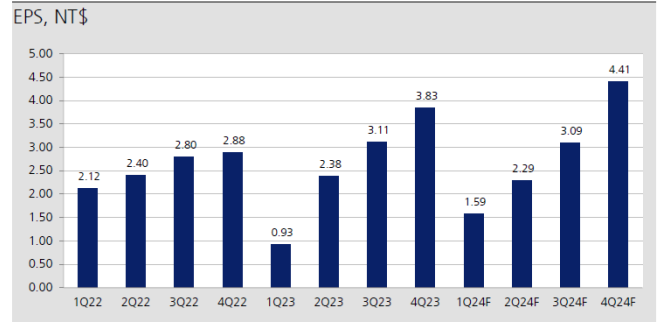
Source: KGI Research

Figure 14: Operating Margin


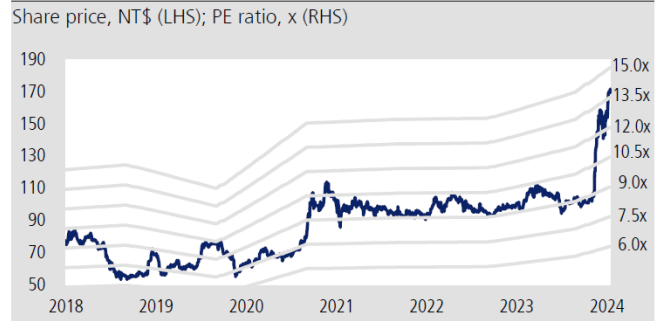
Source: KGI Research

Figure 9: Sales by segment


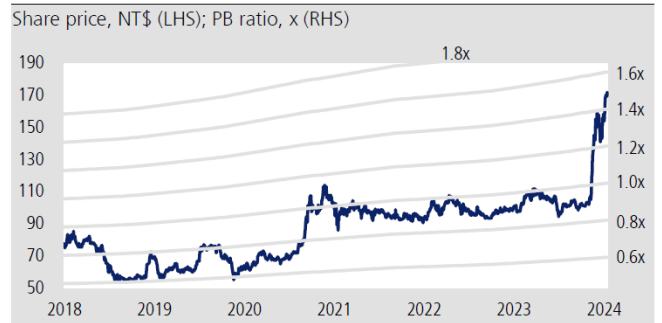
Source: Company data, KGI Research

Figure 11: EPS


Source: KGI Research

Figure 13: 12M forward PE band


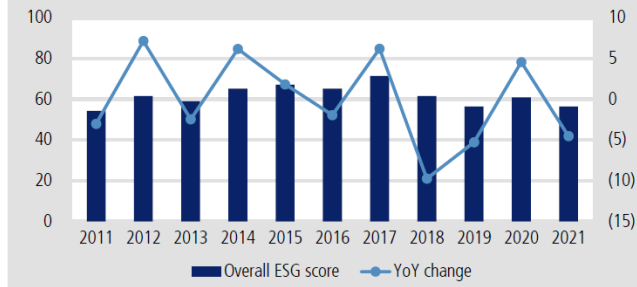
Source: TEJ; KGI Research estimates

Figure 15: 12M forward PB band


Source: TEJ; KGI Research estimates

Figure 16: Overall ESG score

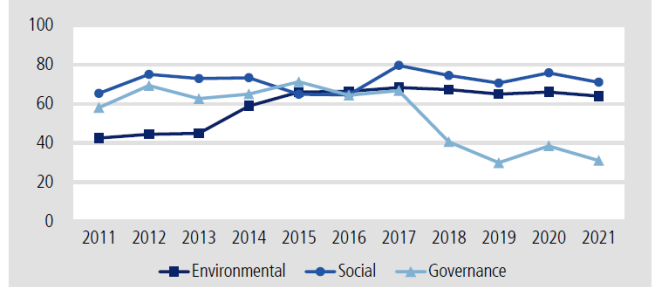
ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv, Company data

Figure 17: ESG score

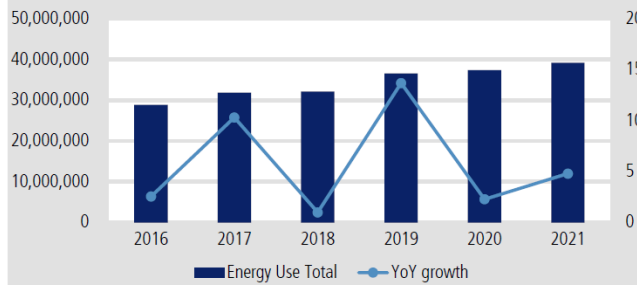
ESG score, points



Source: Refinitiv, Company data

Figure 18: Energy use

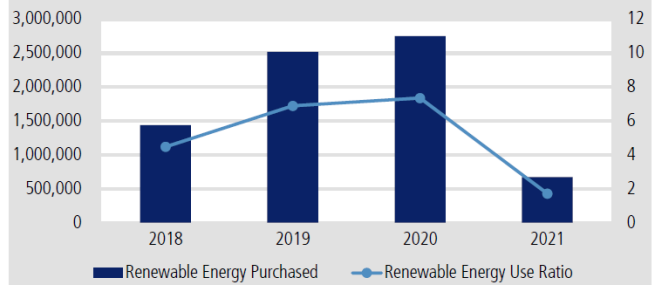
Energy use, gigajoules (LHS); YoY growth, percent (RHS)



Source: Refinitiv, Company data

Figure 19: Renewable energy

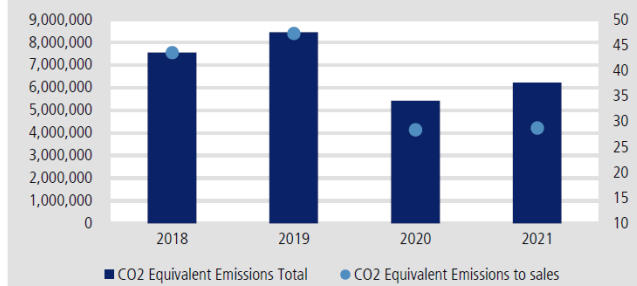
Energy use, gigajoules (LHS); use ratio, percent (RHS)



Source: Refinitiv, Company data

Figure 20: CO2 equivalent emissions

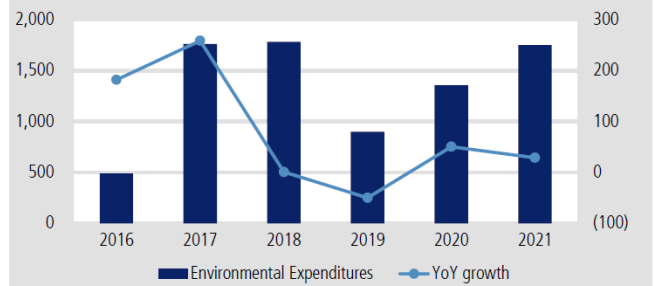
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$m



Source: Refinitiv, Company data

Figure 21: Environmental expenditures

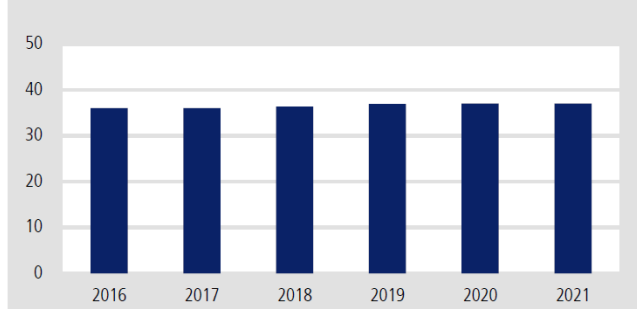
Environmental expenditures, NT\$m (LHS); YoY growth rate, percent (RHS)



Source: Refinitiv, Company data

Figure 22: Gender diversification

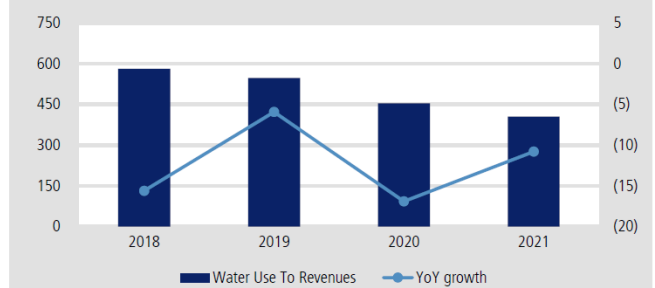
Female employees, percent



Source: Refinitiv, Company data

Figure 23: Water use to revenue

Water use to revenue, cubic meters/ US\$m (LHS); YoY growth rate, percent (RHS)



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\$mn)</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	1,323,992	1,438,998	1,680,502	2,119,166	6,162,221	6,562,658	7,894,036
Cost of goods sold	(1,374,103)	(1,220,971)	(1,440,410)	(1,738,790)	(1,240,329)	(1,349,780)	(1,569,589)	(1,981,420)	(5,774,274)	(6,141,119)	(7,420,048)
Gross profit	88,334	83,577	102,753	113,282	83,662	89,218	110,913	137,746	387,947	421,539	473,989
Operating expenses	(47,811)	(52,652)	(56,604)	(64,352)	(46,912)	(51,804)	(60,498)	(69,932)	(221,419)	(229,146)	(240,500)
Operating profit	40,523	30,925	46,150	48,930	36,751	37,414	50,415	67,813	166,528	192,393	233,488
Depreciation of fixed assets	(18,039)	(19,746)	(20,828)	(20,059)	(29,904)	(29,904)	(29,904)	(29,904)	(78,672)	(119,617)	(132,517)
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	68,002	68,666	81,667	99,065	250,934	317,400	371,395
Interest income	16,530	22,572	20,869	21,730	21,730	21,030	21,030	20,330	81,700	84,121	82,362
Investment income	356	1,269	2,835	762	762	1,500	1,500	1,738	5,222	5,500	12,000
Other non-op income	1,032	9,744	5,111	11,715	11,715	1,200	700	385	27,603	14,000	4,000
Non-operating income	17,918	33,585	28,815	34,207	34,207	23,730	23,230	22,453	114,525	103,621	98,362
Interest expense	(14,752)	(16,805)	(17,747)	(16,239)	(16,239)	(15,416)	(15,416)	(14,592)	(65,543)	(61,662)	(59,250)
Investment loss	(18,952)	-	-	-	(10,500)	-	-	-	(18,952)	(10,500)	(8,000)
Other non-op expenses	(4,334)	-	-	-	(11,710)	-	-	(90)	(4,334)	(11,800)	(4,000)
Non-operating expenses	(38,038)	(16,805)	(17,747)	(16,239)	(38,449)	(15,416)	(15,416)	(14,682)	(88,829)	(83,962)	(71,250)
Pre-tax profit	20,403	47,705	57,217	66,898	32,509	45,729	58,230	75,585	192,224	212,052	260,600
Current taxation	(6,804)	(12,262)	(9,727)	(8,641)	(7,636)	(11,432)	(11,646)	(10,636)	(37,435)	(41,350)	(50,817)
Minorities	(775)	(2,443)	(4,362)	(5,112)	(2,864)	(2,600)	(3,738)	(3,799)	(12,691)	(13,000)	(13,000)
Normalised net profit	12,825	33,001	43,128	53,145	22,009	31,696	42,846	61,150	142,098	157,702	196,783
Extraordinary items	(0)	(0)	(0)	0	-	-	-	-	-	-	-
Net profit	12,825	33,001	43,128	53,145	22,009	31,696	42,846	61,150	142,098	157,702	196,783
EPS (NT\$)	0.93	2.38	3.11	3.83	1.59	2.29	3.09	4.41	10.25	11.38	14.19
Margins (%)											
Gross profit margin	6.0	6.4	6.7	6.1	6.3	6.2	6.6	6.5	6.3	6.4	6.0
Operating margin	2.8	2.4	3.0	2.6	2.8	2.6	3.0	3.2	2.7	2.9	3.0
EBITDA margin	4.1	4.0	4.4	3.8	5.1	4.8	4.9	4.7	4.1	4.8	4.7
Pretax profit margin	1.4	3.7	3.7	3.6	2.5	3.2	3.5	3.6	3.1	3.2	3.3
Net profit margin	0.9	2.5	2.8	2.9	1.7	2.2	2.5	2.9	2.3	2.4	2.5
Sequential growth (%)											
Revenue growth	(25.5)	(10.8)	18.3	20.0	(28.5)	8.7	16.8	26.1			
Gross profit growth	(20.5)	(5.4)	22.9	10.2	(26.1)	6.6	24.3	24.2			
Operating profit growth	(8.4)	(23.7)	49.2	6.0	(24.9)	1.8	34.7	34.5			
EBITDA growth	(8.5)	(13.3)	31.6	2.4	(3.2)	1.0	18.9	21.3			
Pretax profit growth	(61.1)	133.8	19.9	16.9	(51.4)	40.7	27.3	29.8			
Net profit growth	(67.9)	157.3	30.7	23.2	(58.6)	44.0	35.2	42.7			
YoY growth (%)											
Revenue growth	3.9	(13.6)	(11.6)	(5.7)	(9.5)	10.3	8.9	14.4	(7.0)	6.5	20.3
Gross profit growth	4.2	(13.5)	(4.5)	2.0	(5.3)	6.7	7.9	21.6	(3.0)	8.7	12.4
Operating profit growth	10.5	(30.2)	(4.9)	10.6	(9.3)	21.0	9.2	38.6	(4.2)	15.5	21.4
EBITDA growth	11.1	(22.7)	8.5	6.9	13.2	31.8	19.1	41.1	0.3	26.5	17.0
Pretax profit growth	(44.7)	1.6	11.8	27.5	59.3	(4.1)	1.8	13.0	2.5	10.3	22.9
Net profit growth	(56.5)	(0.9)	11.3	32.9	71.6	(4.0)	(0.7)	15.1	0.4	11.0	24.8

Source: Company data, KGI Research estimates

Balance sheet

NT\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total assets	3,908,878	4,133,974	3,939,789	4,067,077	4,376,521
Current assets	3,034,417	3,200,506	3,035,966	3,162,118	3,506,625
Cash & ST securities	1,110,661	1,084,732	1,350,230	1,377,935	1,367,467
Inventory	672,145	939,022	730,765	775,068	939,047
Accounts receivable	1,161,219	1,098,690	872,270	926,414	1,117,411
Other current assets	90,393	78,062	82,700	82,700	82,700
Non-current assets	874,461	933,469	903,823	904,959	869,896
LT investments	429,600	435,825	393,134	398,886	396,340
Net fixed assets	310,107	362,405	393,967	389,351	356,834
Other assets	134,754	135,239	116,722	116,722	116,722
Total liabilities	2,335,618	2,483,443	2,253,545	2,293,212	2,496,542
Current liabilities	1,997,680	2,113,814	1,909,335	1,936,350	2,121,566
Accounts payable	1,076,178	1,068,941	893,119	947,265	1,147,674
Interest bearing ST liabilities	608,958	647,194	648,993	613,643	577,860
Other current liabilities	312,544	397,678	367,222	375,442	396,031
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	1,773,865	1,879,979
Share capital	138,630	138,630	138,630	138,630	138,630
Retained earnings reserve	871,193	925,890	987,704	1,062,325	1,155,439
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%)	6.5%	20.3%
Operating profit growth	34.4%	16.7%	(4.2%)	15.5%	21.4%
EBITDA growth	27.6%	11.5%	0.3%	26.5%	17.0%
Net profit growth	36.9%	1.6%	0.4%	11.0%	24.8%
EPS growth	36.9%	1.6%	0.4%	11.0%	24.8%
Profitability					
Gross profit margin	6.0%	6.0%	6.3%	6.4%	6.0%
Operating margin	2.5%	2.6%	2.7%	2.9%	3.0%
EBITDA margin	3.7%	3.8%	4.1%	4.8%	4.7%
Net profit margin	2.3%	2.1%	2.3%	2.4%	2.5%
Return on average assets	3.7%	3.5%	3.5%	3.9%	4.7%
Return on average equity	10.4%	10.0%	9.7%	10.3%	12.2%
Stability					
Gross debt to equity	56.2%	57.4%	54.6%	50.6%	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	4.4	5.4
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	3.9	3.0
Cash flow/int. & ST debt (x)	(0.2)	0.2	0.6	0.4	0.3
Current ratio (x)	1.5	1.5	1.6	1.6	1.7
Quick ratio (x)	1.2	1.1	1.2	1.2	1.2
Net debt (NT\$mn)	(174,860)	(114,115)	(277,044)	(327,448)	(334,649)
Per share data					
EPS (NT\$)	10.05	10.21	10.25	11.38	14.19
CFPS (NT\$)	(7.09)	7.91	32.14	17.56	12.70
BVPS (NT\$)	99.58	104.63	107.70	113.09	119.80
Adj BVPS (NT\$)	99.59	104.65	107.72	113.09	119.80
SPS (NT\$)	432.43	478.09	444.56	473.39	569.43
EBITDA/share (NT\$)	16.19	18.05	18.10	22.90	26.79
Cash DPS (NT\$)	5.20	5.30	5.40	5.99	7.48
Activity					
Sales / avg assets	1.58	1.65	1.53	1.64	1.87
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\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue	5,994,174	6,626,997	6,162,221	6,562,658	7,894,036
Cost of goods sold	(5,632,047)	(6,226,912)	(5,774,274)	(6,141,119)	(7,420,048)
Gross profit	362,127	400,085	387,947	421,539	473,989
Operating expenses	(213,168)	(226,297)	(221,419)	(229,146)	(240,500)
Operating profit	148,959	173,788	166,528	192,393	233,488
Non-operating income	66,044	64,268	114,525	103,621	98,362
Interest income	32,456	43,303	81,700	84,121	82,362
Investment income	28,660	11,063	5,222	5,500	12,000
Other non-op income	4,928	9,902	27,603	14,000	4,000
Non-operating expenses	(21,432)	(50,544)	(88,829)	(83,962)	(71,250)
Interest expense	(21,958)	(34,736)	(65,543)	(61,662)	(59,250)
Investment loss	-	-	(18,952)	(10,500)	(8,000)
Other non-op expenses	527	(15,808)	(4,334)	(11,800)	(4,000)
Pre-tax profit	193,572	187,511	192,224	212,052	260,600
Current taxation	(39,749)	(36,440)	(37,435)	(41,350)	(50,817)
Minorities	(14,503)	(9,589)	(12,691)	(13,000)	(13,000)
Extraordinary items	-	0	(0)	-	-
Net profit	139,320	141,483	142,098	157,702	196,783
EBITDA	224,441	250,248	250,934	317,400	371,395
EPS (NT\$)	10.05	10.21	10.25	11.38	14.19

Cash flow

NT\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Operations cash flow	(98,212)	109,708	445,553	243,407	176,125
Net profit	139,320	141,483	142,098	157,702	196,783
Depreciation & amortisation	75,481	76,460	84,406	125,007	137,907
Decrease in working capital	(302,448)	(197,434)	247,995	(44,301)	(154,565)
Other operating cash flow	(10,565)	89,199	(28,946)	5,000	(4,000)
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	115,192	65,909
Financing cash flow	24,281	(87,872)	(160,638)	(84,559)	(87,749)
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)	(83,080)
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	27,705	(10,469)

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%	2.9%	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	7.6	8.2
Operating margin	2.5%	2.6%	2.7%	2.9%	3.0%
x Capital turnover	6.9	6.4	7.4	7.6	8.2
x (1 - tax rate)	79.5%	80.6%	80.5%	80.5%	80.5%
= After-tax ROIC	13.5%	13.5%	16.1%	17.9%	19.4%

Source: Company data, KGI Research estimates

Hon Hai – Recommendation & target price history



Source: TEJ, KGI Research

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