



# Hon Hai (2317.TW/2317 TT)

## 2Q23 EPS beat; solid AI server growth in 2023-24F

FTSE4Good TIP Taiwan ESG Index stock

### Outperform · Maintained

Price as of August 14 (NT\$)	110.0
12M target price (NT\$)	140.0
Previous target price (NT\$)	145.0
Revised down (%)	3.4
Upside (%)	27.3

#### Key message

Hon Hai reported stronger-than-expected 2Q23 EPS at NT\$2.38, with margins and non-operating profit a beat. It guides a strong 3Q23F sales outlook, but lowered 2023F sales from flat to YoY decline, further below our estimate by 4%. We lower our target price from NT\$145 to NT\$140 (17x 2024F EPS of NT\$3.6, on cloud & components, and 11x NT\$7.2, on other). Maintain Outperform on a low valuation and decent 2024F earnings growth.

#### Trading data

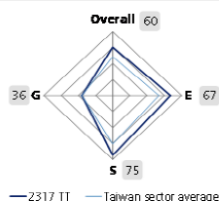
Mkt cap (NT\$bn/US\$mn)	1,525 / 48,021
Outstanding shares (mn)	13,863
Foreign ownership (mn)	5,587
3M avg. daily trading (mn)	32.52
52-week trading range (NT\$)	98.00 - 115.5

Performance	3M	6M	12M
Absolute (%)	7.3	7.8	-2.2
Relative (%)	1.6	3.1	-9.4

#### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	2.12A	2.40A	2.80A	2.88A
2023	0.93A	2.38A	2.18F	2.97F
2024	2.46F	2.23F	2.44F	3.66F

#### ESG score card



Source: Refinitiv

#### Event

Hon Hai reported stronger-than-expected 2Q23 EPS at NT\$2.38, with margins and non-operating profit a beat. It guides a strong 3Q23F sales outlook, but lowered 2023F sales from flat to YoY decline, further below our estimate by 4%.

#### Impact

**2Q23 EPS beat on margins & non-op.** 2Q23 EPS of NT\$2.38 (up 157% QoQ but down 1% YoY) beat consensus and our estimate due mainly to better gross and operating margin and non-operating profit. Gross margin rose to 6.4% (up 0.4ppts QoQ) given NT dollar depreciation and better product mix, on a lower smart consumer electronics (CE, mainly iPhone) sales weighting of 49% (vs. 56% in 1Q23) and a higher cloud sales weighting of 25% (vs. 22% in 1Q23). But operating margin of 2.4% was down QoQ and only slightly better than our projection on higher opex for new 3+3 investments. With higher-than-expected non-operating profit (mainly investment reevaluation and asset disposal gains), 2Q23 EPS was a beat, and 1H23 EPS reached NT\$3.31, down 27% YoY.

**2023F sales guidance down, with margin pressure in 2H23F.** Hon Hai guides 3Q23F sales to grow strongly QoQ, and we estimate growth at 16% QoQ but down 13% YoY, with smart CE and components sales growth the strongest at over 20% QoQ, but flat QoQ on cloud and PC sales. On a YoY basis, only components sales will grow, while all others will decline. The firm trimmed 2023F sales guidance from flat YoY to decline of 4-10%, with cloud and PC the major segments with downward revisions on weak demand. Despite strong AI server sales and growing CSP orders, enterprise sales and networking (65-70% of total cloud sales) are showing weakness in 2H23F. Moreover, PC sales will be lower given demand softness, despite an allocation increase on MacBook. Management said gross and operating margin should be under pressure in 2H23F with an unfavorable product mix and rising expenses for investments. Despite lowered 2H23F earnings and sales forecasts, our 2023F EPS is raised to NT\$8.45 (down 17% YoY) given better 2Q23 earnings.

**AI server the main driver.** Hon Hai said 20% of server sales in 2022 (NT\$1.15tn) were AI server (mostly FPGA, ASIC and GPU), and this weighting in 1H23 was similar, implying NT\$85-90bn from AI server in 1H23, including module, baseboard, motherboard, server and rack. AI server weighting was 20-30% of server sales in 1H23F, up 200% YoY. We see this as the main growth driver in 2H23-2024F, and expect more server and rack sales contribution in 2024F. We also see rising cloud sales in 2024F to boost overall gross margin, and with earnings contribution from cloud business up to over 30% in 2024F. We forecast EPS to grow 28% YoY to NT\$10.78 next year. Although EV sales may miss the 2025F target of NT\$1tn, Hon Hai's global footprint is a key advantage for business expansion, while the US EV factory is another positive, though we think it will take longer for EV sales to expand meaningfully.

#### Valuation & Action

We lower our target price from NT\$145 to NT\$140 (17x 2024F EPS of NT\$3.6, on cloud & components, and 11x NT\$7.2, on other). Maintain Outperform on a low valuation and decent 2024F earnings growth.

#### Risks

Slow EV orders and component development; weakening global demand.

## Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$m)	5,994,174	6,626,997	6,083,172	6,598,644	7,280,559
Gross profit (NT\$m)	362,127	400,085	367,288	406,368	465,956
Operating profit (NT\$m)	148,959	173,788	152,834	179,622	225,697
Net profit (NT\$m)	139,320	141,483	117,127	149,509	186,736
EPS (NT\$)	10.05	10.21	8.45	10.78	13.47
Cash DPS (NT\$)	5.20	5.30	4.39	5.60	7.00
EPS growth (%)	36.9	1.6	(17.2)	27.6	24.9
PE (x)	10.9	10.8	13.0	10.2	8.2
PB (x)	1.1	1.1	1.0	1.0	0.9
EV/EBITDA (x)	4.8	4.6	3.0	2.4	1.8
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	4.7	4.8	4.0	5.1	6.4
Return on average equity (%)	10.4	10.0	7.9	9.7	11.5

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 2Q23 results &amp; 3Q23 forecasts vs. consensus

NT\$m	2Q23							3Q23F						
	Actual	KGI forecast	Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	1,304,548	1,302,688	0.1	(10.8)	(13.6)	1,336,554	(2.4)	1,518,876	1,566,838	(3.1)	16.4	(13.0)	1,659,683	(8.5)
Gross profits	83,577	75,556	10.6	(5.4)	(13.5)	80,755	3.5	91,133	90,877	0.3	9.0	(15.3)	101,257	(10.0)
Operating income	30,925	29,962	3.2	(23.7)	(30.2)	33,241	(7.0)	36,453	39,171	(6.9)	17.9	(24.9)	45,252	(19.4)
Pretax Income	47,705	32,318	47.6	133.8	1.6	37,616	26.8	41,472	42,528	(2.5)	(13.1)	(19.0)	51,078	(18.8)
Net income	33,001	22,039	49.7	157.3	(0.9)	25,935	27.2	30,153	30,997	(2.7)	(8.6)	(22.2)	37,374	(19.3)
EPS (NT\$)	2.38	1.59	49.7	157.3	(0.9)	1.87	27.2	2.18	2.24	(2.7)	(8.6)	(22.2)	2.70	(19.3)
Gross margin (%)	6.4	5.8	0.6 ppts	0.4 ppts	0.0 ppts	6.0	0.4 ppts	6.0	5.8	0.2 ppts	(0.4)ppts	(0.2)ppts	6.1	(0.1)ppts
OP margin (%)	2.4	2.3	0.1 ppts	(0.4)ppts	(0.6)ppts	2.5	(0.1)ppts	2.4	2.5	(0.1)ppts	0.0 ppts	(0.4)ppts	2.7	(0.3)ppts
Net margin (%)	2.5	1.7	0.8 ppts	1.7 ppts	0.3 ppts	1.9	0.6 ppts	2.0	2.0	0.0 ppts	(0.5)ppts	(0.2)ppts	2.3	(0.3)ppts

Source: Company data, Bloomberg, KGI Research

Figure 2: Breakdown of 2023-25 forecast revisions vs. consensus

NT\$m	2023F						2024F						2025F			
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	KGI forecast	YoY (%)	Consensus	Diff. (%)
Sales	6,083,172	6,356,790	(4.3)	(8.2)	6,499,798	(6.4)	6,598,644	6,826,719	(3.3)	8.5	6,865,620	(3.9)	7,280,559	10.3	7,357,356	(1.0)
Gross profit	367,288	376,257	(2.4)	(8.2)	393,888	(6.8)	406,368	425,934	(4.6)	10.6	432,328	(6.0)	465,956	14.7	550,551	(15.4)
Operating income	152,834	164,326	(7.0)	(12.1)	172,256	(11.3)	179,622	192,844	(6.9)	17.5	191,340	(6.1)	225,697	25.7	254,139	(11.2)
Pretax Income	160,159	153,752	4.2	(14.6)	170,983	(6.3)	205,188	207,418	(1.1)	28.1	217,159	(5.5)	252,191	22.9	290,228	(13.1)
Net income	117,127	112,002	4.6	(17.2)	123,667	(5.3)	149,509	151,275	(1.2)	27.6	157,010	(4.8)	186,736	24.9	214,811	(13.1)
EPS (NT\$)	8.45	8.08	4.6	(17.2)	8.92	(5.3)	10.78	10.91	(1.2)	27.6	11.33	(4.8)	13.47	24.9	15.50	(13.1)
Gross margin (%)	6.0	5.9	0.1 ppts	0.0 ppts	6.1	(0.0)ppts	6.2	6.2	(0.1)ppts	0.1 ppts	6.3	(0.1)ppts	6.4	0.2 ppts	7.5	(1.1)ppts
OP margin (%)	2.5	2.6	(0.1)ppts	(0.1)ppts	2.7	(0.1)ppts	2.7	2.8	(0.1)ppts	0.2 ppts	2.8	(0.1)ppts	3.1	0.4 ppts	3.5	(0.4)ppts
Net margin (%)	1.9	1.8	0.2 ppts	(0.2)ppts	1.9	0.0 ppts	2.3	2.2	0.0 ppts	0.3 ppts	2.3	(0.0)ppts	2.6	0.3 ppts	2.9	(0.4)ppts

Source: Company data, Bloomberg, KGI Research estimates

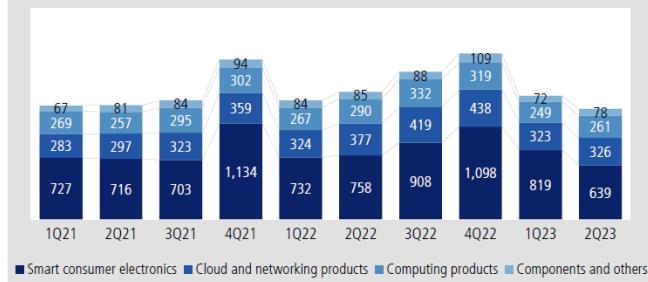
Figure 3: Product mix

Sales (NT\$b)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2020	2021	2022	2023F	2024F
Smart consumer electronics	727	715	703	1,135	732	758	908	1,098	819	639	2,593	3,280	3,496	3,290	3,464
Cloud & networking	283	296	323	364	324	377	419	438	323	326	1,316	1,267	1,557	1,342	1,534
Computing	263	259	295	296	267	290	332	319	249	261	1,136	1,114	1,208	1,068	1,121
Components & others	74	81	84	94	84	85	87	109	72	78	313	334	365	384	479
Total	1,347	1,351	1,406	1,890	1,408	1,510	1,747	1,963	1,462	1,305	5,358	5,994	6,627	6,083	6,599
Weighting (%)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2020	2021	2022	2023F	2024F
Smart consumer electronics	54	53	50	60	52	50	52	56	56	49	48	55	53	54	52
Cloud & networking	21	22	23	19	23	25	24	22	22	25	25	21	24	22	23
Computing	20	19	21	16	19	19	19	16	17	20	21	19	18	18	17
Components & others	5	6	6	5	6	6	5	6	5	6	6	6	6	6	7
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
YoY (%)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2020	2021	2022	2023F	2024F
Smart consumer electronics	86	76	33	(10)	1	6	29	(3)	12	(16)	(2)	27	7	(6)	5
Cloud & networking	11	(13)	(11)	1	14	27	29	20	(0)	(14)	5	(4)	23	(14)	14
Computing	19	(15)	(5)	(2)	2	12	13	8	(7)	(10)	2	(2)	8	(12)	5
Components & others	17	3	(7)	18	14	4	4	15	(15)	(7)	(3)	7	9	5	25
Total	45	20	9	(6)	4	12	24	4	4	(14)	0	12	11	(8)	8
QoQ (%)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2020	2021	2022	2023F	2024F
Smart consumer electronics	(43)	(2)	(2)	61	(36)	4	20	21	(25)	(22)					
Cloud & networking	(22)	5	9	13	(11)	17	11	5	(26)	1					
Computing	(13)	(1)	14	0	(10)	8	15	(4)	(22)	5					
Components & others	(8)	10	4	12	(11)	0	3	25	(34)	9					
Total	(33)	0	4	34	(26)	7	16	12	(26)	(11)					

Source: Company data, KGI Research estimates

Figure 4: Revenue mix by product

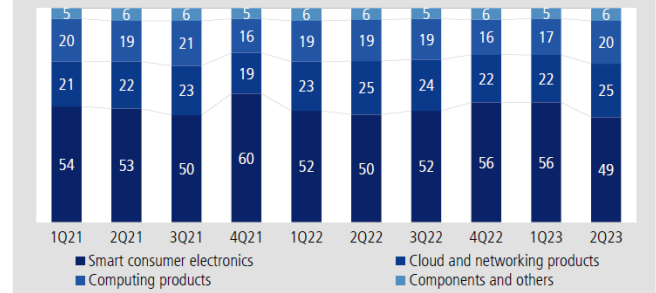
Revenue by product segment, NT\$bn



Source: Company data, KGI Research

Figure 5: Revenue mix by product

Revenue by product segment, percent



Source: Company data, KGI Research

Figure 6: Peer comparison – Financials of ODMs

Ticker	Company	Sales YoY (%)			GM (%)			OPM (%)			OP YoY (%)			EPS (NT\$)			EPS YoY (%)		
		2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
6669 TT	Wiwynn	52.0	(14.9)	35.1	8.2	8.5	8.2	6.1	6.2	6.2	56.6	(14.0)	36.5	81.07	67.25	93.25	63.9	(17.1)	38.7
3231 TT	Wistron	14.2	(9.8)	9.1	7.1	7.6	8.2	2.8	2.9	3.9	67.8	(6.9)	48.7	4.01	3.51	6.61	6.6	(12.4)	88.1
2317 TT	Hon Hai	10.6	(8.2)	8.5	6.0	6.0	6.2	2.6	2.5	2.7	16.7	(12.1)	17.5	10.21	8.45	10.78	1.6	(17.2)	27.6
2382 TT	Quanta	13.4	(10.4)	37.6	5.5	6.9	6.1	2.4	3.3	3.1	(16.3)	21.4	29.2	7.51	8.75	11.15	(14.0)	16.5	27.3
2356 TT	Inventec	4.2	(3.8)	14.1	4.8	4.9	5.1	1.2	1.3	1.8	41.2	0.3	58.9	1.71	1.52	2.41	(6.3)	(11.1)	58.6
4938 TT	Pegatron	4.3	(5.4)	5.9	4.3	3.7	4.0	1.9	1.2	1.7	50.6	(38.8)	43.5	5.66	5.58	6.79	(26.5)	(1.5)	21.6
2324 TT	Compal*	(13.1)	(7.1)	4.1	3.8	3.8	3.6	0.9	1.1	1.3	(30.9)	16.6	25.6	1.67	2.10	2.76	(42.4)	8.2	11.8

\* Bloomberg consensus

Source: Bloomberg, KGI Research estimates

Figure 7: Peer comparison – Valuations of global EMS &amp; ODM/ OEMs

Company	Ticker	Market cap. (US\$mn)	Share price (LCY)	Rating	Target Price (LCY)	EPS (LCY)		EPS YoY (%)		PE (x)		PB (x)		ROE (%)		Cash yield (%)	
						2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2022	2023F
Hon Hai	2317 TT	48,088	110.00	Outperform	140.0	8.45	10.78	(17.2)	27.6	13.0	10.2	1.0	1.0	7.9	9.7	4.8	4.0
Quanta	2382 TT	29,112	239.00	Outperform	310.0	8.75	11.15	16.5	27.3	27.3	21.4	5.2	5.0	19.6	23.8	2.5	2.9
Pegatron	4938 TT	6,349	75.50	Neutral	81.0	5.58	6.79	(1.5)	21.6	13.5	11.1	1.1	1.0	8.0	9.5	5.3	4.8
Inventec	2356 TT	6,007	53.10	Neutral	62.0	1.52	2.41	(11.1)	58.6	34.9	22.0	3.1	3.1	9.1	14.1	2.8	2.3
Compal*	2324 TT	4,552	32.75	Not rated	N.A.	1.91	2.28	6.2	19.5	17.2	14.4	1.2	1.2	7.1	8.3	6.1	3.9
Wistron	3231 TT	10,197	111.50	Outperform	160.0	3.51	6.61	(12.4)	88.1	31.7	16.9	3.1	2.7	9.8	16.6	2.3	2.2
Asustek	2357 TT	8,690	371.00	Outperform	435.0	15.51	28.97	(21.6)	86.8	23.9	12.8	1.3	1.2	5.4	9.7	4.0	2.9
Acer*	2353 TT	3,479	36.20	Not rated	N.A.	1.45	1.85	111.7	27.2	24.9	19.6	1.6	1.6	6.6	7.9	4.1	3.5
Lenovo*	992 HK	12,081	7.79	Not rated	N.A.	0.12	0.15	(10.9)	19.5	63.3	53.0	13.9	11.7	23.9	24.1	0.6	0.6
Apple	AAPL US	2,779,610	177.79	Outperform	195.0	5.87	6.37	(3.8)	8.4	30.3	27.9	45.6	34.5	165.4	144.4	0.5	0.5
HP*	HPQ US	32,310	32.77	Not rated	N.A.	3.35	3.47	(16.1)	3.6	9.8	9.4	(9.6)	(12.6)	(148.9)	(366.4)	3.1	3.2

\* Bloomberg consensus; EPS of companies listed in Hong Kong based on HK dollars

Source: Bloomberg, KGI Research estimates

**Figure 8: Peer comparison – Valuations of global auto electronics makers**

Company	Ticker	Market cap. (US\$m)	Share price (LCY)	Rating	Target Price (LCY)	EPS (LCY)		EPS YoY (%)		PE (x)		PB (x)		ROE (%)		Cash yield (%)	
						2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2022	2023F
Hon Hai	2317 TT	48,088	110.00	Outperform	140.0	8.45	10.78	(17.2)	27.6	13.0	10.2	1.0	1.0	7.9	9.7	4.8	4.0
Delta	2308 TT	28,711	350.50	Outperform	410.0	13.26	16.38	5.5	23.5	26.4	21.4	4.9	4.4	18.5	21.6	2.8	2.1
Sinbon	3023 TT	2,417	320.00	Outperform	400.0	14.77	17.39	20.9	17.7	21.7	18.4	5.5	5.1	26.8	29.0	2.7	3.3
Bizlink	3665 TT	1,384	269.00	Outperform	375.0	20.21	29.02	(19.2)	43.6	13.3	9.3	1.8	1.6	14.0	18.5	3.0	3.7
Global PMX	4551 TT	480	132.00	Outperform	165.0	6.91	11.76	(43.3)	70.1	19.1	11.2	1.8	1.6	9.5	15.1	4.5	2.3
Cub Electparts	2231 TT	607	143.50	Neutral	172.0	6.16	7.83	31.3	27.0	23.3	18.3	4.7	4.4	20.1	24.8	1.6	4.2
Hu Lane	6279 TT	451	143.50	Outperform	175.0	8.42	11.34	(16.1)	34.6	17.0	12.7	2.4	2.3	14.7	18.5	3.9	3.5
Tung Thih Electronic	3552 TT	324	120.00	Underperform	120.0	0.45	6.70	(93.8)	1392.2	267.1	17.9	2.4	2.2	0.9	12.7	2.9	0.0
Tong Hsing Electronic*	6271 TT	814	123.50	Not rated	N.A.	4.87	8.52	(64.6)	75.2	25.4	14.5	1.1	1.1	4.9	7.4	7.4	2.0
K. S. Terminals*	3003 TT	348	70.90	Not rated	N.A.	4.58	5.20	(22.3)	13.5	15.5	13.6	1.9	1.8	N.M.	N.M.	2.8	3.4
Alltop Tech	3526 TT	306	164.50	Outperform	220.0	9.99	12.30	6.1	23.2	16.5	13.4	3.7	3.5	22.9	27.0	5.7	4.9
CATL*	300750 CH	142,013	232.90	Not rated	N.A.	10.33	13.16	43.8	27.3	22.5	17.7	5.1	4.0	24.5	25.1	0.2	0.7
Zhejiang Sanhua*	002050 CH	14,346	27.71	Not rated	N.A.	0.86	1.07	28.9	24.0	32.3	26.0	7.7	6.5	20.8	21.5	0.9	0.9
Gotion High-Tech*	002074 CH	6,415	26.00	Not rated	N.A.	0.62	0.95	256.5	53.8	42.0	27.3	2.3	1.9	4.7	7.0	0.3	0.1
Tesla	TSLA US	770,170	242.65	Outperform	335.0	3.59	5.68	(11.8)	58.2	67.6	42.7	13.4	10.0	18.4	23.7	0.0	0.0
<b>Peer Average</b>										<b>41.5</b>	<b>18.3</b>	<b>4.0</b>	<b>3.4</b>	<b>14.9</b>	<b>18.7</b>	<b>2.9</b>	<b>2.3</b>

\*Bloomberg consensus

Source: Bloomberg, KGI Research estimates

**Figure 9: 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"> <li>Initially focusing on Chinese EV market.</li> <li>PSA and FCA merged as Stellantis in January 2021.</li> <li>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.</li> </ol>
	May-21	50% FIH Mobile 50% Stellantis	<ol style="list-style-type: none"> <li>Software R&amp;D including AI, navigation, voice assistance, and payment systems.</li> <li>Targets self-designed IC chips adopted in Stellantis vehicles by 2024.</li> </ol>
	Feb-20	51% Hon Hai 49% Yulong	<ol style="list-style-type: none"> <li>Hon Hai and Yulong established a JV, Foxtron, in 2020.</li> <li>Expects Foxtron to launch first EV model in 2-3 years.</li> </ol>
	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"> <li>Hon Hai will work with Fisker in Project PEAR, targeting mass production of another EV model in 4Q23.</li> <li>Hon Hai announced in May 2021 it would establish an EV production site in the US with Fisker.</li> <li>PEAR project for Fisker will be produced at Lordstown's plant in Ohio.</li> </ol>
	May-21	60% PTT Group 40% Hon Hai	<ol style="list-style-type: none"> <li>Signed Memorandum of Understanding (MoU) and founded JV to provide EV production platform in Thailand with investment of US\$1-2bn.</li> <li>Targets mass production with annual EV capacity of 50k in 2023-2024.</li> <li>Planned annual EV capacity is 150k.</li> </ol>
	Jun-21	N.A.	Signed MoU to work on EV battery exchange.
	Jul-21	N.A.	<ol style="list-style-type: none"> <li>Foxtron signed MoU to work on EV bus.</li> <li>Expects to operate in southern Taiwan in 2022.</li> </ol>
	Sep-21	N.A.	<ol style="list-style-type: none"> <li>Hon Hai reached an agreement with Lordstown to cooperate in electric pickup truck production.</li> <li>Hon Hai will purchase Lordstown's Ohio plant and equipment for US\$230mn.</li> <li>Targets mass production of Endurance full-size pickup and revenue contribution in 2H22.</li> <li>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.</li> <li>Hon Hai will purchase Lordstown's shares for US\$67.85mn.</li> <li>Maximum annual capacity of 500-600k.</li> </ol>
	Feb-22	8.2% Hon Hai	<ol style="list-style-type: none"> <li>Hon Hai will invest SAR562.5mn to acquire 8.2% of JV.</li> <li>Targets sedan and SUV.</li> <li>Will cooperate in EEA, software, and cloud.</li> </ol>
	May-22	55% Hon Hai	<ol style="list-style-type: none"> <li>Hon Hai completed OEM manufacturing agreement, signed JV development agreement, and formally acquired Lordstown factory.</li> <li>Hon Hai will invest US\$55mn in the JV and hold 55% of shares.</li> <li>Lordstown Motors will become Hon Hai's first mass-production commercial vehicle customer and start to produce electric pickups in Ohio in 2H22.</li> </ol>
	Aug-22	N.A.	<ol style="list-style-type: none"> <li>Hon Hai signed contract manufacturing agreement (CMA) with Monarch Tractor to build next-generation agricultural equipment and battery packs at Foxconn Ohio facility.</li> <li>Foxconn's first CMA following closing of Asset Purchase Agreement (APA).</li> <li>Scheduled to begin full-rate production of Monarch Tractor's MK-V Series in 1Q23 at Foxconn Ohio (~6.2mn square feet).</li> </ol>
	Sep-22		<ol style="list-style-type: none"> <li>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..</li> <li>The establishment of FIM is a continuation of the MoU signed in Jan. 2022 by Indika, Foxconn, and others.</li> <li>FIM will conduct manufacturing business for commercial electric vehicles and electric batteries, as well as providing management consultation service.</li> </ol>
	Oct-22		<ol style="list-style-type: none"> <li>Hon Hai announced the signing of MOU with INDIEV to manufacture the first INDI One prototype vehicles at Foxconn Ohio.</li> <li>This MOU is the newest EV manufacturing opportunity confirmed for Foxconn after completing the Asset Purchase Agreement ("APA").</li> <li>Potential collaboration will be disclosed at a later date as both sides remain in negotiation.</li> </ol>
	Nov-22		<ol style="list-style-type: none"> <li>Public Investment Fund (PIF) announced the launch of Ceer, a joint venture between PIF and Foxconn.</li> <li>Ceer is the first EV brand in Saudi Arabia and will license component technology from BMW.</li> <li>Ceer will attract over US\$150mn of foreign direct investment, projected to directly contribute US\$8 bn to Saudi Arabia's GDP by 2034.</li> </ol>
	Nov-22		<ol style="list-style-type: none"> <li>Hon Hai announced to invest US\$170mn in Lordstown through its subsidiary Foxconn Ventures Pte. Ltd.</li> <li>After the completion of the transaction, Hon Hai will hold all of Lordstown's outstanding preferred stock and 18.3% of its common stock.</li> <li>Hon Hai will become the biggest shareholder of Lordstown and have the right to designate two board members after this deal.</li> </ol>

Source: Company data, KGI Research



**Figure 10: Hon Hai has announced partnerships with key component makers for EV**

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\$995mm 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	Vedanta 60% Hon Hai 40%	Semiconductor	1) Signed MoU to found JV to work on semiconductor. 2) Will produce in India to meet India's domestic production policy. 3) Will invest US\$7-8bn in phase 1, designed monthly capacity is 60k wpm for 28nm. 4) Targets 30-35% market share in India. 5) Plans to start construction by end-2022, complete in 2024-25, and mass production 6-8 months after.
	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\$15mm to acquire 9.09-9.68% in the first stage, and could increase investment to maximum of US\$100mm if
	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 AcheronTek 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 SiMOSFETs 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.
	Sep-22		Semiconductor	1) Hon Hai and Vedanta signed MoU with Government of Gujarat to invest US\$19.5bn to set up semiconductor and display production plants in Gujarat. 2) Hon Hai will act as a technical partner in the deal, which will be financed by Vedanta. 3) Hon Hai and Vedanta will work closely with the state government to establish high-tech clusters with the requisite infrastructure.
	Jan-23		Connector	1) Hon Hai's Hon Teng Precision Technology (FIT) announced to acquire PRETTL SWH Group for 186mm 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 350-400mm 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.

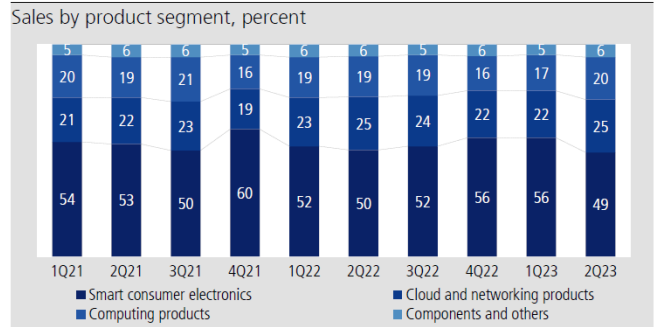
Source: Company data, KGI Research

**Figure 11: Company profile**

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

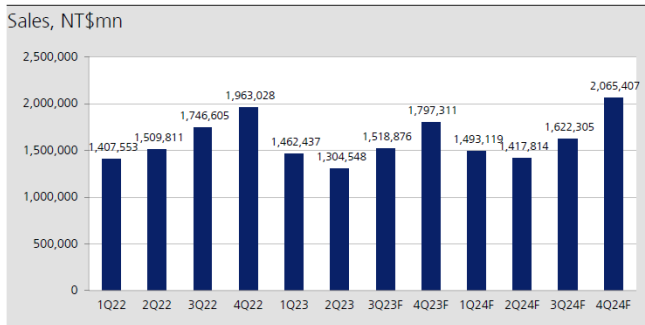
Source: Company data, KGI Research

**Figure 12: Hon Hai's sales by segment**



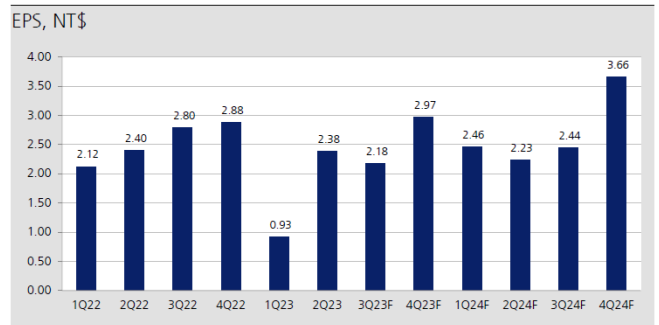
Source: Company data, KGI Research

**Figure 13: Sales**



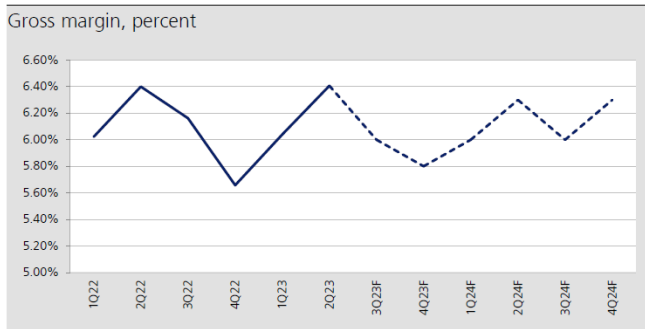
Source: KGI Research

**Figure 14: EPS**



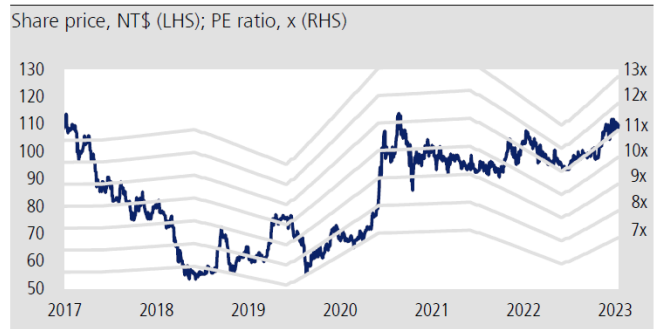
Source: KGI Research

**Figure 15: Gross Margin**



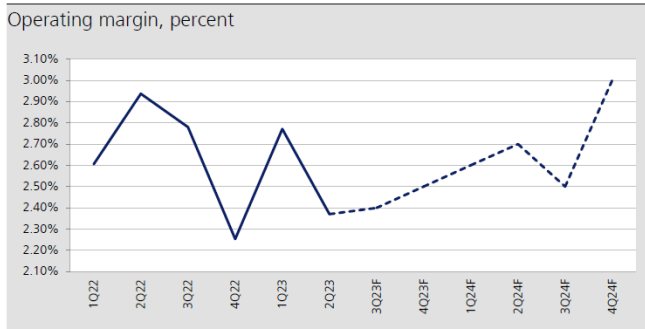
Source: KGI Research

**Figure 16: 12M forward PE band**



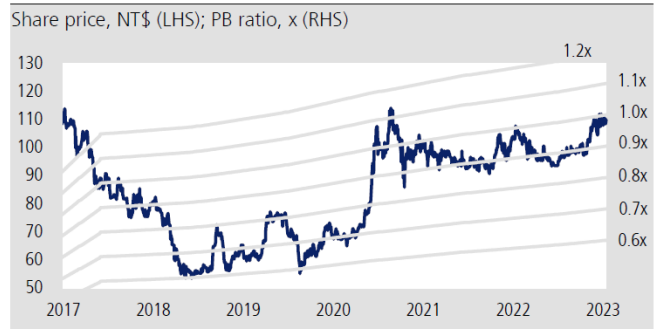
Source: TEJ; KGI Research estimates

**Figure 17: Operating Margin**



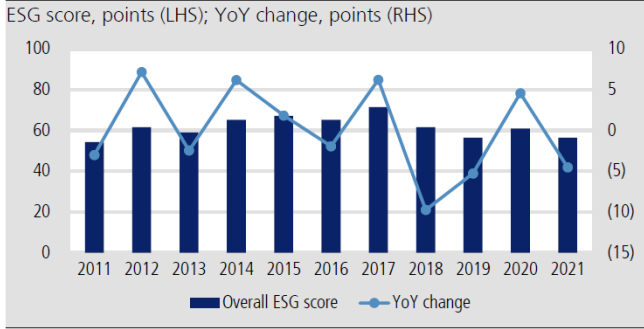
Source: KGI Research

**Figure 18: 12M forward PB band**



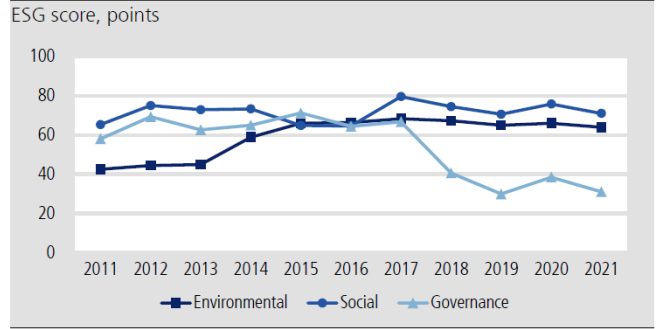
Source: TEJ; KGI Research estimates

**Figure 19: Overall ESG score**



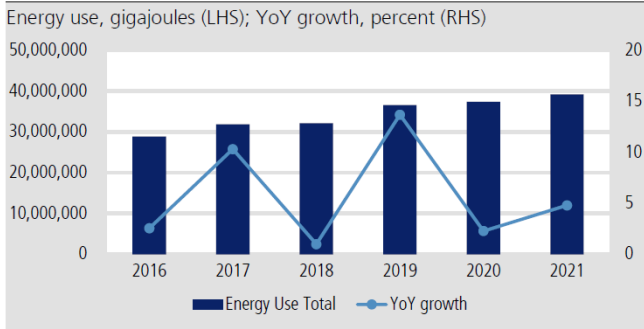
Source: Refinitiv, Company data

**Figure 20: ESG scores**



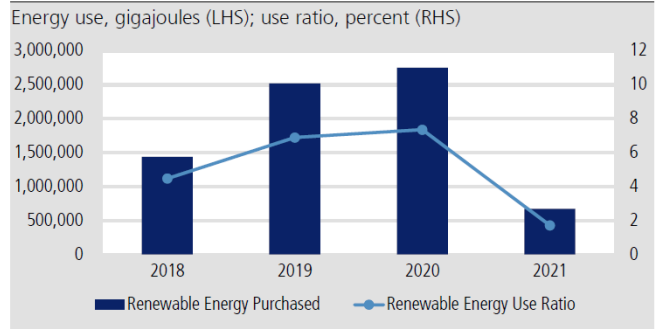
Source: Refinitiv, Company data

**Figure 21: Energy use**



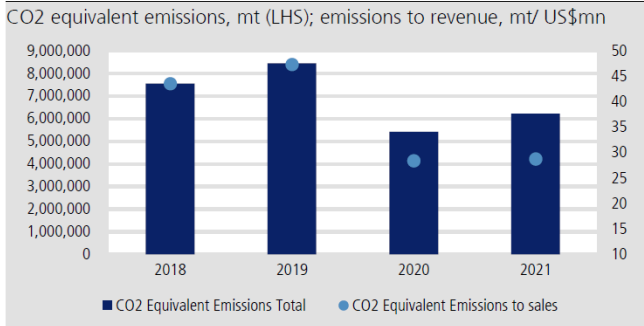
Source: Refinitiv, Company data

**Figure 22: Renewable energy**



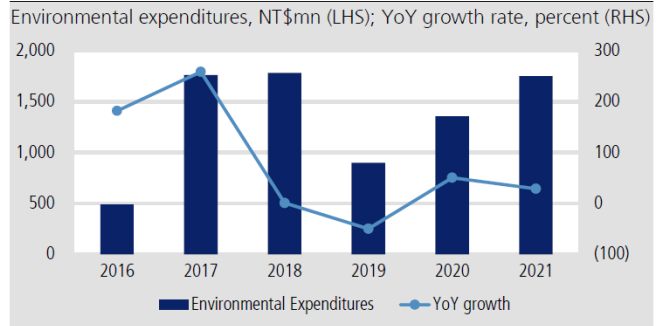
Source: Refinitiv, Company data

**Figure 23: CO2 equivalent emissions**



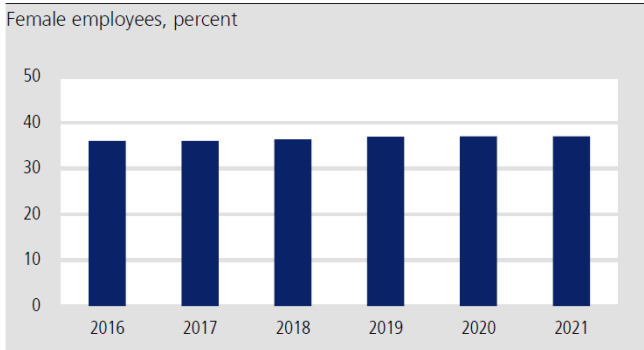
Source: Refinitiv, Company data

**Figure 24: Environmental expenditures**



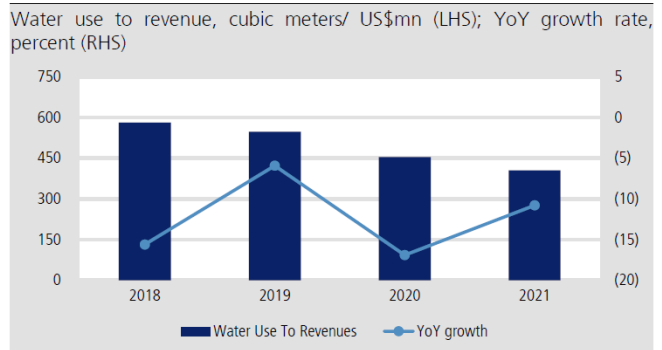
Source: Refinitiv, Company data

**Figure 25: Gender diversification**



Source: Refinitiv, Company data

**Figure 26: 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"> <li>- the total amount of energy that has been consumed within the boundaries of the company's operations</li> <li>- total energy use = total direct energy consumption + indirect energy consumption</li> <li>- purchased energy and produced energy are included in total energy use</li> <li>- 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)</li> <li>- for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use'</li> </ul>	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased</li> </ul>	
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"> <li>- direct emissions from sources that are owned or controlled by the company (scope 1 emissions)</li> <li>- following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)</li> </ul>	
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"> <li>- direct emissions from sources that are owned or controlled by the company (scope 1 emissions)</li> <li>- following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)</li> </ul>	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> <li>- total waste = non-hazardous waste + hazardous waste</li> <li>- 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</li> <li>- for sectors like mining, oil &amp; gas, waste generation like tailings, waste rock, coal and fly ash are also considered</li> </ul>	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> <li>- waste recycling ratio = waste recycled/total waste*100</li> <li>- waste to energy or waste incinerated with energy recovery are considered as waste recycled</li> <li>- waste recovered via composting is considered as recycled waste</li> </ul>	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- different sources of water like wells, town/utility/municipal water, river water, and surface water are considered</li> </ul>	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> <li>- all environmental investment &amp; expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures</li> </ul>	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- employees turnover rate = (employees leaving/average number of employees)*100</li> <li>- where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2</li> <li>- employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving</li> </ul>	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> <li>- percentage of women managers among total managers of the company</li> <li>- 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</li> <li>- percentage of women managers = number of women managers/total number of managers*100</li> </ul>	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> <li>- percentage of women employees to the total number of employees of the company</li> <li>- percentage of women employees = number of women/total number of employees*100</li> </ul>	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> <li>- consider only employee training hours</li> <li>- includes all types of training given to general employees (such as health &amp; safety, environmental, emergency response, skills &amp; career development training)</li> <li>- if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked</li> </ul>	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

## Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23F	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
<b>Income statement (NT\$mn)</b>											
Revenue	1,462,437	1,304,548	1,518,876	1,797,311	1,493,119	1,417,814	1,622,305	2,065,407	6,083,172	6,598,644	7,280,559
Cost of goods sold	(1,374,103)	(1,220,971)	(1,427,743)	(1,693,067)	(1,403,532)	(1,328,491)	(1,524,967)	(1,935,286)	(5,715,884)	(6,192,276)	(6,814,603)
<b>Gross profit</b>	<b>88,334</b>	<b>83,577</b>	<b>91,133</b>	<b>104,244</b>	<b>89,587</b>	<b>89,322</b>	<b>97,338</b>	<b>130,121</b>	<b>367,288</b>	<b>406,368</b>	<b>465,956</b>
Operating expenses	(47,811)	(52,652)	(54,680)	(59,311)	(50,766)	(51,041)	(56,781)	(68,158)	(214,454)	(226,746)	(240,258)
<b>Operating profit</b>	<b>40,523</b>	<b>30,925</b>	<b>36,453</b>	<b>44,933</b>	<b>38,821</b>	<b>38,281</b>	<b>40,558</b>	<b>61,962</b>	<b>152,834</b>	<b>179,622</b>	<b>225,697</b>
Depreciation of fixed assets	(18,039)	(19,746)	(42,177)	(88,748)	(46,450)	(46,450)	(46,450)	(46,450)	(168,710)	(185,800)	(202,453)
Amortisation of intangible assets	(1,502)	(1,429)	(1,481)	(1,512)	(1,481)	(1,481)	(1,481)	(1,481)	(5,924)	(5,924)	(5,924)
<b>EBITDA</b>	<b>60,064</b>	<b>52,101</b>	<b>80,112</b>	<b>135,192</b>	<b>86,752</b>	<b>86,212</b>	<b>88,489</b>	<b>109,893</b>	<b>327,468</b>	<b>371,346</b>	<b>434,074</b>
Interest income	16,530	22,572	19,238	18,612	18,574	18,574	18,574	18,574	76,951	74,297	70,805
Investment income	356	1,269	1,375	2,500	2,750	2,750	2,750	2,750	5,500	11,000	11,000
Other non-op income	1,032	9,744	1,300	1,423	500	500	500	500	13,500	2,000	2,000
<b>Non-operating income</b>	<b>17,918</b>	<b>33,585</b>	<b>21,913</b>	<b>22,535</b>	<b>21,824</b>	<b>21,824</b>	<b>21,824</b>	<b>21,824</b>	<b>95,951</b>	<b>87,297</b>	<b>83,805</b>
Interest expense	(14,752)	(16,805)	(15,793)	(15,823)	(14,183)	(14,183)	(14,183)	(14,183)	(63,174)	(56,731)	(52,311)
Investment loss	(18,952)	-	-	-	-	-	-	-	(18,952)	-	-
Other non-op expenses	(4,334)	-	(1,100)	(1,066)	(1,250)	(1,250)	(1,250)	(1,250)	(6,500)	(5,000)	(5,000)
<b>Non-operating expenses</b>	<b>(38,038)</b>	<b>(16,805)</b>	<b>(16,893)</b>	<b>(16,889)</b>	<b>(15,433)</b>	<b>(15,433)</b>	<b>(15,433)</b>	<b>(15,433)</b>	<b>(88,626)</b>	<b>(61,731)</b>	<b>(57,311)</b>
<b>Pre-tax profit</b>	<b>20,403</b>	<b>47,705</b>	<b>41,472</b>	<b>50,578</b>	<b>45,213</b>	<b>44,672</b>	<b>46,949</b>	<b>68,354</b>	<b>160,159</b>	<b>205,188</b>	<b>252,191</b>
Current taxation	(6,804)	(12,262)	(8,294)	(4,671)	(9,043)	(11,168)	(9,390)	(13,079)	(32,032)	(42,679)	(52,456)
Minorities	(775)	(2,443)	(3,025)	(4,758)	(2,113)	(2,600)	(3,738)	(4,550)	(11,000)	(13,000)	(13,000)
<b>Normalised net profit</b>	<b>12,825</b>	<b>33,001</b>	<b>30,153</b>	<b>41,149</b>	<b>34,058</b>	<b>30,904</b>	<b>33,822</b>	<b>50,725</b>	<b>117,127</b>	<b>149,509</b>	<b>186,736</b>
Extraordinary items	(0)	(0)	-	0	-	-	-	-	-	-	-
<b>Net profit</b>	<b>12,825</b>	<b>33,001</b>	<b>30,153</b>	<b>41,149</b>	<b>34,058</b>	<b>30,904</b>	<b>33,822</b>	<b>50,725</b>	<b>117,127</b>	<b>149,509</b>	<b>186,736</b>
EPS (NT\$)	0.93	2.38	2.18	2.97	2.46	2.23	2.44	3.66	8.45	10.78	13.47
<b>Margins (%)</b>											
Gross profit margin	6.0	6.4	6.0	5.8	6.0	6.3	6.0	6.3	6.0	6.2	6.4
Operating margin	2.8	2.4	2.4	2.5	2.6	2.7	2.5	3.0	2.5	2.7	3.1
EBITDA margin	4.1	4.0	5.3	7.5	5.8	6.1	5.5	5.3	5.4	5.6	6.0
Pretax profit margin	1.4	3.7	2.7	2.8	3.0	3.2	2.9	3.3	2.6	3.1	3.5
Net profit margin	0.9	2.5	2.0	2.3	2.3	2.2	2.1	2.5	1.9	2.3	2.6
<b>Sequential growth (%)</b>											
Revenue growth	(25.5)	(10.8)	16.4	18.3	(16.9)	(5.0)	14.4	27.3			
Gross profit growth	(20.5)	(5.4)	9.0	14.4	(14.1)	(0.3)	9.0	33.7			
Operating profit growth	(8.4)	(23.7)	17.9	23.3	(13.6)	(1.4)	5.9	52.8			
EBITDA growth	(8.5)	(13.3)	53.8	68.8	(35.8)	(0.6)	2.6	24.2			
Pretax profit growth	(61.1)	133.8	(13.1)	22.0	(10.6)	(1.2)	5.1	45.6			
Net profit growth	(67.9)	157.3	(8.6)	36.5	(17.2)	(9.3)	9.4	50.0			
<b>YoY growth (%)</b>											
Revenue growth	3.9	(13.6)	(13.0)	(8.4)	2.1	8.7	6.8	14.9	(8.2)	8.5	10.3
Gross profit growth	4.2	(13.5)	(15.3)	(6.1)	1.4	6.9	6.8	24.8	(8.2)	10.6	14.7
Operating profit growth	10.5	(30.2)	(24.9)	1.6	(4.2)	23.8	11.3	37.9	(12.1)	17.5	25.7
EBITDA growth	11.1	(22.7)	26.8	105.9	44.4	65.5	10.5	(18.7)	30.9	13.4	16.9
Pretax profit growth	(44.7)	1.6	(19.0)	(3.6)	121.6	(6.4)	13.2	35.1	(14.6)	28.1	22.9
Net profit growth	(56.5)	(0.9)	(22.2)	2.9	165.6	(6.4)	12.2	23.3	(17.2)	27.6	24.9

Source: Company data, KGI Research estimates

**Balance sheet**

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total assets</b>	<b>3,908,878</b>	<b>4,133,974</b>	<b>4,038,670</b>	<b>4,191,733</b>	<b>4,398,698</b>
<b>Current assets</b>	<b>3,034,417</b>	<b>3,200,506</b>	<b>3,160,857</b>	<b>3,357,792</b>	<b>3,629,993</b>
Cash & ST securities	1,110,661	1,084,732	1,212,307	1,257,482	1,317,240
Inventory	672,145	939,022	861,959	931,248	1,027,646
Accounts receivable	1,161,219	1,098,690	1,008,529	1,091,001	1,207,044
Other current assets	90,393	78,062	78,062	78,062	78,062
<b>Non-current assets</b>	<b>874,461</b>	<b>933,469</b>	<b>877,813</b>	<b>833,941</b>	<b>768,706</b>
LT investments	429,600	435,825	448,879	495,807	538,025
Net fixed assets	310,107	362,405	293,695	202,895	95,442
Other assets	134,754	135,239	135,239	135,239	135,239
<b>Total liabilities</b>	<b>2,335,618</b>	<b>2,483,443</b>	<b>2,320,837</b>	<b>2,389,033</b>	<b>2,493,238</b>
<b>Current liabilities</b>	<b>1,997,680</b>	<b>2,113,814</b>	<b>2,000,686</b>	<b>2,039,885</b>	<b>2,138,619</b>
Accounts payable	1,076,178	1,068,941	981,216	1,060,091	1,169,827
Interest bearing ST liabilities	608,958	647,194	634,441	577,948	547,614
Other current liabilities	312,544	397,678	385,030	401,846	421,179
<b>Non-current liabilities</b>	<b>337,938</b>	<b>369,630</b>	<b>320,151</b>	<b>349,148</b>	<b>354,619</b>
Long-term debt	275,600	301,017	251,538	280,536	286,006
Other LT liabilities	44,121	51,151	51,151	51,151	51,151
<b>Total equity</b>	<b>1,573,260</b>	<b>1,650,531</b>	<b>1,717,833</b>	<b>1,802,699</b>	<b>1,905,461</b>
Share capital	138,630	138,630	138,630	138,630	138,630
Retained earnings reserve	871,193	925,890	982,192	1,054,059	1,143,820
Minority interests	192,803	199,986	210,986	223,986	236,986
Preferred shareholders funds	-	-	-	-	-

**Key ratios**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Growth</b>					
Revenue growth	11.9%	10.6%	(8.2%)	8.5%	10.3%
Operating profit growth	34.4%	16.7%	(12.1%)	17.5%	25.7%
EBITDA growth	27.6%	11.5%	30.9%	13.4%	16.9%
Net profit growth	36.9%	1.6%	(17.2%)	27.6%	24.9%
EPS growth	36.9%	1.6%	(17.2%)	27.6%	24.9%
<b>Profitability</b>					
Gross profit margin	6.0%	6.0%	6.0%	6.2%	6.4%
Operating margin	2.5%	2.6%	2.5%	2.7%	3.1%
EBITDA margin	3.7%	3.8%	5.4%	5.6%	6.0%
Net profit margin	2.3%	2.1%	1.9%	2.3%	2.6%
Return on average assets	3.7%	3.5%	2.9%	3.6%	4.3%
Return on average equity	10.4%	10.0%	7.9%	9.7%	11.5%
<b>Stability</b>					
Gross debt to equity	56.2%	57.4%	51.6%	47.6%	43.7%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	9.8	6.4	3.5	4.6	5.8
Interest & ST debt coverage (x)	0.2	0.2	0.1	0.2	0.2
Cash flow interest coverage(x)	(4.5)	3.2	6.1	4.5	5.4
Cash flow/int. & ST debt (x)	(0.2)	0.2	0.6	0.4	0.5
Current ratio (x)	1.5	1.5	1.6	1.6	1.7
Quick ratio (x)	1.2	1.1	1.1	1.2	1.2
Net debt (NT\$m)	(174,860)	(114,115)	(303,923)	(376,593)	(461,215)
<b>Per share data</b>					
EPS (NT\$)	10.05	10.21	8.45	10.78	13.47
CFPS (NT\$)	(7.09)	7.91	27.75	18.56	20.30
BVPS (NT\$)	99.58	104.63	108.70	113.88	120.35
Adj BVPS (NT\$)	99.59	104.65	108.70	113.88	120.35
SPS (NT\$)	432.43	478.09	438.81	475.99	525.18
EBITDA/share (NT\$)	16.19	18.05	23.62	26.79	31.31
Cash DPS (NT\$)	5.20	5.30	4.39	5.60	7.00
<b>Activity</b>					
Sales / avg assets	1.58	1.65	1.49	1.60	1.70
Days receivable	70.7	60.5	60.5	60.5	60.5
Days inventory	43.6	55.0	55.0	55.0	55.0
Days payable	69.7	62.7	62.7	62.7	62.7
Cash cycle	44.5	52.9	52.9	52.9	52.9

Source: Company data, KGI Research estimates

**Profit & loss**

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Revenue</b>	<b>5,994,174</b>	<b>6,626,997</b>	<b>6,083,172</b>	<b>6,598,644</b>	<b>7,280,559</b>
Cost of goods sold	(5,632,047)	(6,226,912)	(5,715,884)	(6,192,276)	(6,814,603)
<b>Gross profit</b>	<b>362,127</b>	<b>400,085</b>	<b>367,288</b>	<b>406,368</b>	<b>465,956</b>
Operating expenses	(213,168)	(226,297)	(214,454)	(226,746)	(240,258)
<b>Operating profit</b>	<b>148,959</b>	<b>173,788</b>	<b>152,834</b>	<b>179,622</b>	<b>225,697</b>
<b>Non-operating income</b>	<b>66,044</b>	<b>64,268</b>	<b>95,951</b>	<b>87,297</b>	<b>83,805</b>
Interest income	32,456	43,303	76,951	74,297	70,805
Investment income	28,660	11,063	5,500	11,000	11,000
Other non-op income	4,928	9,902	13,500	2,000	2,000
<b>Non-operating expenses</b>	<b>(21,432)</b>	<b>(50,544)</b>	<b>(88,626)</b>	<b>(61,731)</b>	<b>(57,311)</b>
Interest expense	(21,958)	(34,736)	(63,174)	(56,731)	(52,311)
Investment loss	-	-	(18,952)	-	-
Other non-op expenses	527	(15,808)	(6,500)	(5,000)	(5,000)
<b>Pre-tax profit</b>	<b>193,572</b>	<b>187,511</b>	<b>160,159</b>	<b>205,188</b>	<b>252,191</b>
Current taxation	(39,749)	(36,440)	(32,032)	(42,679)	(52,456)
Minorities	(14,503)	(9,589)	(11,000)	(13,000)	(13,000)
Extraordinary items	-	0	-	-	-
<b>Net profit</b>	<b>139,320</b>	<b>141,483</b>	<b>117,127</b>	<b>149,509</b>	<b>186,736</b>
<b>EBITDA</b>	<b>224,441</b>	<b>250,248</b>	<b>327,468</b>	<b>371,346</b>	<b>434,074</b>
EPS (NT\$)	10.05	10.21	8.45	10.78	13.47

**Cash flow**

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Operations cash flow</b>	<b>(98,212)</b>	<b>109,708</b>	<b>384,712</b>	<b>257,349</b>	<b>281,406</b>
Net profit	139,320	141,483	117,127	149,509	186,736
Depreciation & amortisation	75,481	76,460	174,634	191,724	208,377
Decrease in working capital	(302,448)	(197,434)	79,499	(72,885)	(102,706)
Other operating cash flow	(10,565)	89,199	13,452	(11,000)	(11,000)
<b>Investing cash flow</b>	<b>(92,083)</b>	<b>(45,440)</b>	<b>(132,430)</b>	<b>(136,853)</b>	<b>(132,141)</b>
Sale of ST investment	(31,480)	29,944	-	-	-
New investments	(7,662)	(45,351)	(26,506)	(35,928)	(31,217)
Capital expenditure	(92,296)	(97,935)	(100,000)	(95,000)	(95,000)
Others investing cashflow	39,355	67,902	(5,924)	(5,924)	(5,924)
<b>Free cash flow</b>	<b>(206,247)</b>	<b>(84,746)</b>	<b>270,476</b>	<b>160,176</b>	<b>183,498</b>
<b>Financing cash flow</b>	<b>24,281</b>	<b>(87,872)</b>	<b>(124,706)</b>	<b>(75,321)</b>	<b>(89,506)</b>
Increase in short term debt	99,435	23,682	(80,000)	(40,000)	(40,000)
Increase in long term loans	28,293	7,242	17,767	12,505	15,136
New ordinary shares issued	5,000	(7,763)	-	-	-
Ordinary dividends paid	(58,745)	(79,026)	(73,474)	(60,826)	(77,642)
Other financing cashflow	(49,702)	(32,006)	11,000	13,000	13,000
<b>Forex effects</b>	<b>(7,363)</b>	<b>26,512</b>	-	-	-
<b>Total cash generated</b>	<b>(173,377)</b>	<b>2,909</b>	<b>127,575</b>	<b>45,175</b>	<b>59,759</b>

**ROIC**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	3.6%	3.4%	3.5%	3.4%	3.3%
<b>= Operating margin</b>	<b>2.5%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.7%</b>	<b>3.1%</b>
1 / (Working capital/revenue	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.1	0.1	0.0	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
<b>= Capital turnover</b>	<b>6.9</b>	<b>6.4</b>	<b>6.7</b>	<b>7.6</b>	<b>8.6</b>
Operating margin	2.5%	2.6%	2.5%	2.7%	3.1%
x Capital turnover	6.9	6.4	6.7	7.6	8.6
x (1 - tax rate)	79.5%	80.6%	80.0%	79.2%	79.2%
<b>= After-tax ROIC</b>	<b>13.5%</b>	<b>13.5%</b>	<b>13.5%</b>	<b>16.4%</b>	<b>21.2%</b>

Source: Company data, KGI Research estimates

## Hon Hai – Recommendation & target price history



Date	Rating	Target	Price
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
2022-10-23	Outperform	123.0	103.5
2022-08-10	Outperform	124.0	110.0
2022-07-05	Outperform	122.0	102.5
2022-03-16	Outperform	118.0	101.5

Source: TEJ, KGI Research

**All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.**

### Disclaimer

All the information contained in this report is not intended for use by persons or entities located in or residing in jurisdictions which restrict the distribution of this information by KGI Asia Limited ("KGI") or an affiliate of KGI. Such information shall not constitute investment advice, or an offer to sell, or an invitation, solicitation or recommendation to subscribe for or invest in any securities or investment products or services nor a distribution of information for any such purpose in any jurisdiction. In particular, the information herein is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities in the United States of America, or to or for the benefit of United States persons (being residents of the United States of America or partnerships or corporations organised under the laws of the United States of America or any state, territory or possession thereof). All the information contained in this report is for general information and reference purpose only without taking into account of any particular investor's objectives, financial situation or needs. Such information is not intended to provide professional advice and should not be relied upon in that regard.

Some of KGI equity research and earnings estimates are available electronically on [www.kgi.com.hk](http://www.kgi.com.hk). Please contact your KGI representative for information. The information and opinions in this report are those of KGI internal research activity. KGI does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be redistributed, reproduced or published (in whole or in part) by any means for any purpose without the prior written consent of KGI. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.