

# Hon Hai (2317.TW/2317 TT)

## Strong 3Q25F earnings expected; bright outlook intact

FTSE4Good TIP Taiwan ESG Index stock

### Outperform · Maintained

Price as of November 5 (NT\$)	247.0
12M target price (NT\$)	340.0
Previous target price (NT\$)	335.0
Revised up (%)	1.5
Upside (%)	37.7

### Key message

- 84.1%-owned Foxconn Industrial Internet (CN) posted solid 3Q25 earnings; we expect Hon Hai's 3Q25F earnings to beat our estimate on higher margins.
- We expect 4Q25F sales to grow by double digits QoQ and YoY with GB AI server and consumer electronics (iPhone 17) as key drivers.
- 2026F growth driver is AI server; consumer electronics will be boosted by growing iPhone sales; new clients and projects in AI server to boost cloud sales weighting to over 50% in 2026F.

### Trading data

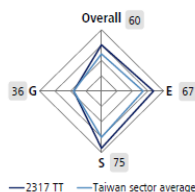
Mkt cap (NT\$bn/US\$mn)	3,449 /
Outstanding shares (mn)	13,964
Foreign ownership (mn)	5,546
3M avg. daily trading (mn)	54.16
52-week trading range (NT\$)	112.5 -262.0

Performance	3M	6M	12M
Absolute (%)	33.9	73.3	15.4
Relative (%)	16.8	38.3	-4.6

### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2023	0.93A	2.38A	3.11A	3.83A
2024	1.59A	2.53A	3.55A	3.34A
2025	3.03A	3.19A	3.81F	4.05F

### ESG score card



Source: Refinitiv

### Event

At Nvidia's (US) GTC event in October, CEO Jensen Huang discussed several collaboration projects with Hon Hai in AI server assembly, and an AI plant and robotaxi alliance with Uber (US) and Stellantis (FR), highlighting Hon Hai's strong position in the AI market. In addition, based on 84.1%-owned Foxconn Industrial Internet's (FI; CN) solid 3Q25 earnings (up 62% YoY), we have revised up our 3Q25F earnings forecast for Hon Hai.

### Impact

**Stronger-than-expected FI earnings boost 3Q25F earnings upside for Hon Hai.** FI's 3Q25 sales were Rmb\$243.2bn (up 43% YoY and 21% QoQ) and earnings were Rmb\$10.37bn (up 62% YoY and 51% QoQ), driven by the cloud business. Cloud sales rose 75% YoY due to GPU AI server rack (GB) ramp-up in 3Q25, with the cloud sales weighting of CSP clients up to around 70%. AI server sales grew 90% QoQ (more than five-fold YoY), boosting 1Q-3Q25 GPU AI server sales growth to over 300% YoY and cloud sales to over 65% YoY. FI's switch sales also grew in 3Q25 on AI demand growth, driving YoY growth of 100% with 800G switch sales up by over 27-fold. Based on a sales contribution of around 51% for Hon Hai in 3Q25F, and FI's 3Q25F net margin rising to 4.3% from 3.5% in 2Q25, Hon Hai's 3Q25F earnings look to beat consensus and our forecast. We revise up 3Q25F EPS to NT\$3.81 on better margins and non-op income.

**4Q25F sales to grow by double digits QoQ & YoY; bright 2026F outlook intact.** October sales were NT\$895.7bn, up 7% MoM and 11% YoY, with computing and cloud the main drivers, and accounting for 38% of our 4Q25F sales estimate (up 16% QoQ). Growing GB AI server and iPhone sales will boost 4Q25F sales to an annual peak, we believe. On higher margin expected, we raise 2025F EPS to NT\$14.08 (up 28% YoY). At the GTC event, Nvidia highlighted several other AI projects with Hon Hai, including GB superchip and assembly in Texas, US, Super NIC, Bluefield-3, compute tray, and NVLink switch tray. Hon Hai also announced collaborations with Nvidia, Stellantis and Uber in Level 4 (hands-off, eyes-off) autonomous vehicles for robotaxi services, with the firm focusing on computing, sensor integration and electronic control systems. With its hardware and integration know-how, this alliance will leverage Nvidia's advanced AI computing powered by NVIDIA DRIVE AGX Thor and the DRIVE AV software stack, Stellantis' vehicle platforms, and Uber's vast global network to advance autonomous mobility. Regarding cloud-related business, Hon Hai will benefit from a doubling of AI GB/ VR server rack shipments in 2026F, with CSP client add-ins and more projects kicking off (e.g. Stargate). It will also benefit from extending AI server products from rack level (L11) to modularized data center (MDC) via infrastructure efforts (L11-plus), for EPS contribution of NT\$1.0-1.2 (0.75-1GW under a 50%-owned JV) in 2026F, we estimate, boosting EPS to NT\$18.90, up 34% YoY.

### Valuation & Action

We raise our target price from NT\$335 to NT\$340 (18x 2026F EPS) on growing competitiveness in the AI server market. Maintain Outperform.

### Risks

Slow EV orders; weakening global demand; NT dollar appreciation; tariff impact.

### Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	6,626,997	6,162,221	6,859,615	7,881,864	11,224,947
Gross profit (NT\$mn)	400,085	387,947	428,946	473,562	631,180
Operating profit (NT\$mn)	173,788	166,528	200,607	235,061	344,928
Net profit (NT\$mn)	141,483	142,098	152,705	195,561	262,597
EPS (NT\$)	10.21	10.25	11.01	14.08	18.90
Cash DPS (NT\$)	5.30	5.40	5.80	7.43	9.97
EPS growth (%)	1.6	0.4	7.4	27.9	34.3
PE (x)	24.2	24.1	22.4	17.5	13.1
PB (x)	2.4	2.3	2.1	2.0	1.8
EV/EBITDA (x)	11.0	10.7	10.4	9.0	7.4
Net debt to equity (%)	Net cash	Net cash	Net cash	2.4	13.5
Dividend yield (%)	2.1	2.2	2.3	3.0	4.0
Return on average equity (%)	10.0	9.7	9.7	11.6	14.6

Source: Company data, KGI Research estimates

**Figure 1: Breakdown of 3Q25 & 4Q25 forecast revisions vs. consensus**

NT\$m	3Q25F								4Q25F							
	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)		Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	
Sales	2,057,444	2,057,444	0.0	14.7	10.9	2,112,232	(2.6)		2,386,636	2,386,636	0.0	16.0	12.0	2,454,715	(2.8)	
Gross profits	123,447	119,332	3.4	8.7	7.6	126,185	(2.2)		136,038	133,652	1.8	10.2	3.8	141,613	(3.9)	
Operating income	62,752	57,608	8.9	10.9	14.6	62,720	0.1		69,212	69,928	(1.0)	10.3	7.3	71,748	(3.5)	
Pretax Income	70,234	59,065	18.9	7.8	3.8	69,501	1.1		71,783	70,925	1.2	2.2	13.4	77,302	(7.1)	
Net income	52,891	43,734	20.9	19.2	7.2	51,139	3.4		56,201	55,678	0.9	6.3	21.3	57,090	(1.6)	
EPS (NT\$)	3.81	3.15	20.9	19.2	7.2	3.68	3.4		4.05	4.01	0.9	6.3	21.2	4.11	(1.6)	
Gross margin (%)	6.0	5.8	0.2 ppts	(0.3)ppts	(0.2)ppts	6.0	0.0 ppts		5.7	5.6	0.1 ppts	(0.3)ppts	(0.5)ppts	5.8	(0.1)ppts	
OP margin (%)	3.1	2.8	0.3 ppts	(0.1)ppts	0.1 ppts	3.0	0.1 ppts		2.9	2.9	(0.0)ppts	(0.1)ppts	(0.1)ppts	2.9	(0.0)ppts	
Net margin (%)	2.6	2.1	0.4 ppts	0.1 ppts	(0.1)ppts	2.4	0.1 ppts		2.4	2.3	0.0 ppts	(0.2)ppts	0.2 ppts	2.3	0.0 ppts	

Source: Company data; Bloomberg; KGI Research

**Figure 2: Breakdown of 2025-26 forecast revisions vs. consensus**

NT\$m	2025F						2026F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	7,881,864	7,881,864	0.0	14.9	7,995,749	(1.4)	11,224,947	11,115,718	1.0	42.4	9,698,555	15.7
Gross profit	473,562	467,061	1.4	10.4	482,783	(1.9)	631,180	626,893	0.7	33.3	572,021	10.3
Operating income	235,061	230,633	1.9	17.2	236,825	(0.7)	344,928	339,716	1.5	46.7	292,860	17.8
Pretax Income	266,287	254,260	4.7	25.7	269,734	(1.3)	350,737	345,502	1.5	31.7	316,422	10.8
Net income	195,561	185,880	5.2	28.1	192,434	1.6	262,597	258,357	1.6	34.3	231,562	13.4
EPS (NT\$)	14.08	13.38	5.2	27.9	13.85	1.6	18.90	18.60	1.6	34.3	16.67	13.4
Gross margin (%)	6.0	5.9	0.1 ppts	(0.2)ppts	6.0	(0.0)ppts	5.6	5.6	(0.0)ppts	(0.4)ppts	5.9	(0.3)ppts
OP margin (%)	3.0	2.9	0.1 ppts	0.1 ppts	3.0	0.0 ppts	3.1	3.1	0.0 ppts	0.1 ppts	3.0	0.1 ppts
Net margin (%)	2.5	2.4	0.1 ppts	0.3 ppts	2.4	0.1 ppts	2.3	2.3	0.0 ppts	(0.1)ppts	2.4	(0.0)ppts

Source: Company data; Bloomberg; KGI Research estimates

**Figure 3: Sales mix**

Sales (NT\$b)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	2020	2021	2022	2023	2024	2025F	2026F
Smart consumer electronics	819	639	833	1,075	634	621	829	1,084	658	632	762	2,593	3,280	3,496	3,366	3,169	2,984	3,044
Cloud & networking	323	326	339	369	373	502	585	563	560	729	859	1,316	1,267	1,557	1,358	2,024	3,067	6,166
Computing	249	261	278	292	238	333	315	341	316	317	274	1,136	1,114	1,208	1,079	1,228	1,121	1,121
Components & others	72	78	93	116	79	94	125	142	111	116	162	313	334	365	359	439	710	894
Total	1,462	1,305	1,543	1,852	1,324	1,551	1,855	2,131	1,644	1,793	2,057	5,358	5,994	6,627	6,162	6,860	7,882	11,225
Weighting (%)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	2020	2021	2022	2023	2024	2025F	2026F
Smart consumer electronics	56	49	54	58	48	40	45	51	40	35	37	48	55	53	54	46	38	27
Cloud & networking	22	25	22	20	28	32	32	26	34	41	42	25	21	24	22	30	39	55
Computing	17	20	18	16	18	22	17	16	19	18	13	21	19	18	18	18	14	10
Components & others	5	6	6	6	6	6	7	7	7	6	8	6	6	6	6	6	9	8
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
YoY (%)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	2020	2021	2022	2023	2024	2025F	2026F
Smart consumer electronics	12	(16)	(8)	(2)	(23)	(3)	(0)	1	4	2	(8)	(2)	27	7	(4)	(6)	(6)	2
Cloud & networking	(0)	(14)	(19)	(16)	15	54	72	52	50	45	47	5	(4)	23	(13)	49	52	101
Computing	(7)	(10)	(16)	(8)	(4)	28	14	17	33	(5)	(13)	2	(2)	8	(11)	14	(9)	0
Components & others	(15)	(7)	6	7	10	19	35	22	41	24	30	(3)	7	9	(2)	22	62	26
Total	4	(14)	(12)	(6)	(9)	19	20	15	24	16	11	0	12	11	(7)	11	15	42
QoQ (%)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	2020	2021	2022	2023	2024	2025F	2026F
Smart consumer electronics	(25)	(22)	30	29	(41)	(2)	33	31	(39)	(4)	21							
Cloud & networking	(26)	1	4	9	1	35	17	(4)	(1)	30	18							
Computing	(22)	5	6	5	(18)	40	(5)	8	(7)	0	(13)							
Components & others	(34)	9	18	25	(32)	19	33	14	(22)	4	40							
Total	(26)	(11)	18	20	(29)	17	20	15	(23)	9	15							

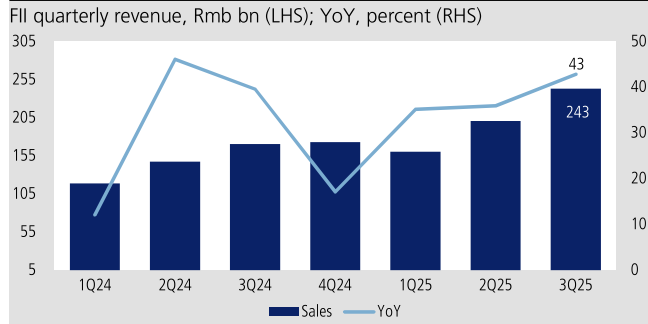
Source: Company data; KGI Research estimates

**Figure 4: Hon Hai's guidance for AI server segment**

1Q25	* The majority of server sales came from general servers and Hopper AI servers
2Q25	* AI servers made up around half of all server sales
	* GB200 racks comprised 40-50% of AI server sales
3Q25F	* AI server sales to grow by more than 170% YoY, or as much as 100% QoQ
	* GB-series AI server rack shipments to grow by more than 300% QoQ
2025F	* AI server sales to exceed NT\$1tn

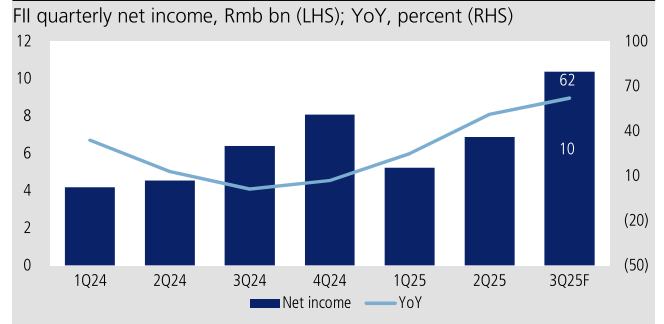
Source: Company data; KGI Research

**Figure 5: FII's revenue growth to accelerate on AI demand boost**



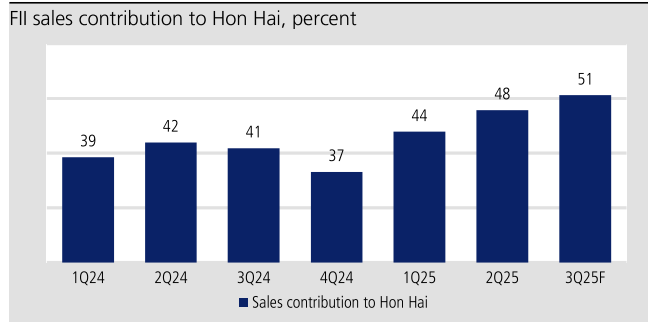
Source: Company data; KGI Research

**Figure 6: FII's earnings jumped 62% YoY in 3Q25 on cloud business**



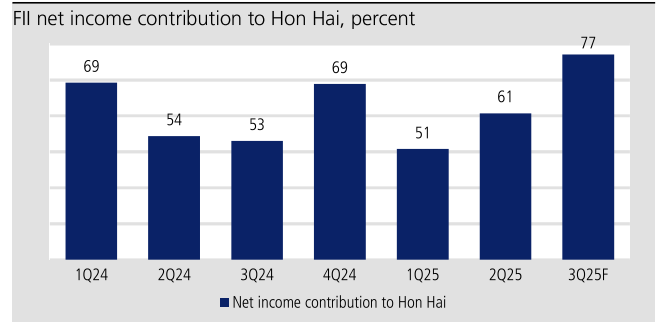
Source: Company data; KGI Research

**Figure 7: On higher cloud sales, FII's sales contribution to Hon Hai has increased over the past year**



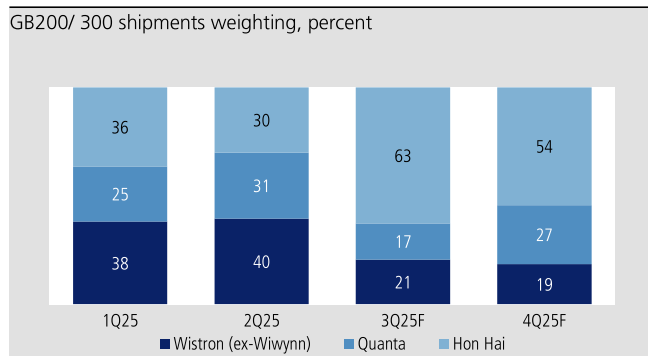
Source: Company data; KGI Research estimates

**Figure 8: We expect FII will account for over 70% of Hon Hai's earnings in 3Q25F**



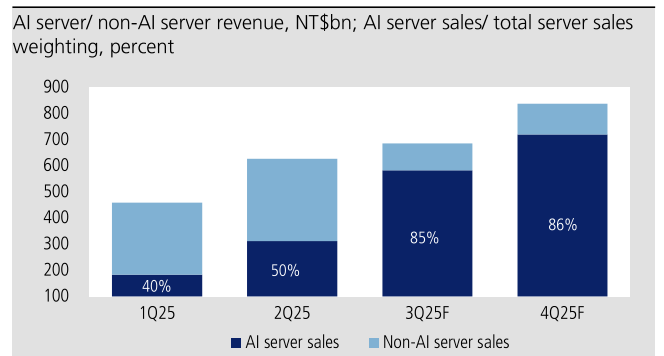
Source: Company data; KGI Research estimates

**Figure 9: Hon Hai to be dominant in AI server in 2H25-2026F**



Source: Company data; KGI Research estimates

**Figure 10: Hon Hai's AI server sales to rise in 3Q25F QoQ as manufacturing bottlenecks have been resolved**

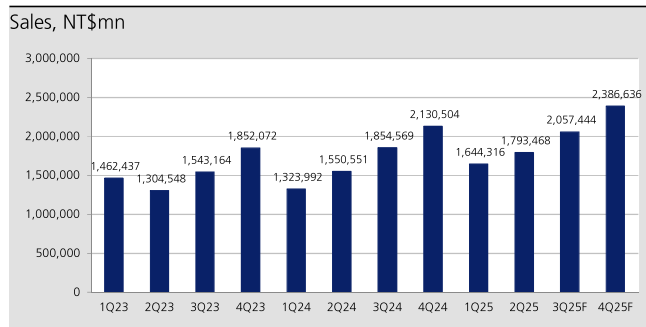


Source: Company data; KGI Research estimates

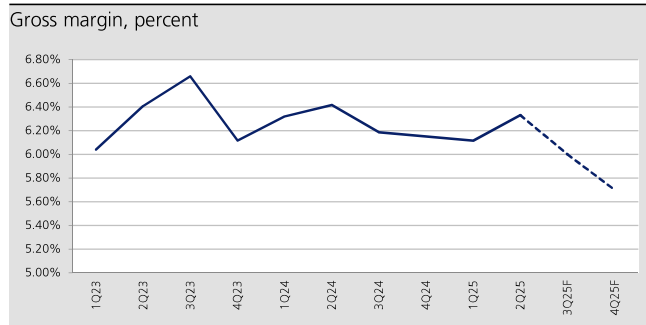
**Figure 11: Company profile**

Founded in 1974, Hon Hai Precision 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.

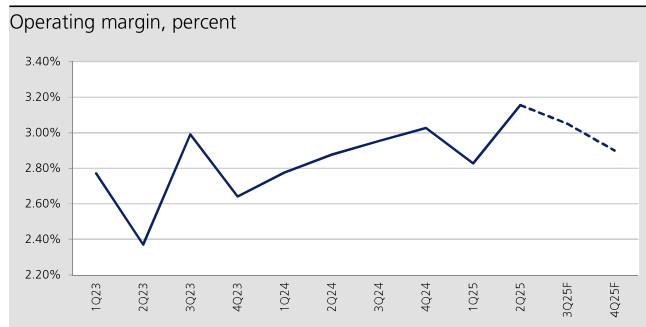
Source: Company data; KGI Research

**Figure 13: Sales**


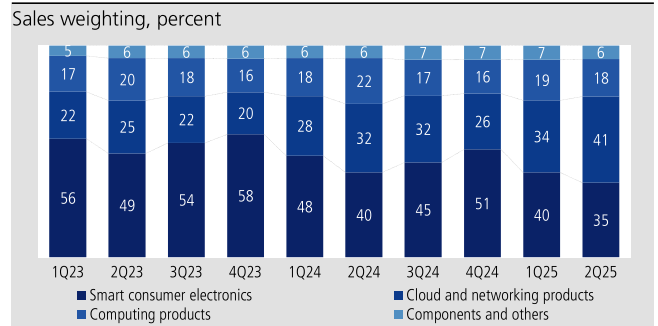
Source: KGI Research

**Figure 15: Gross Margin**


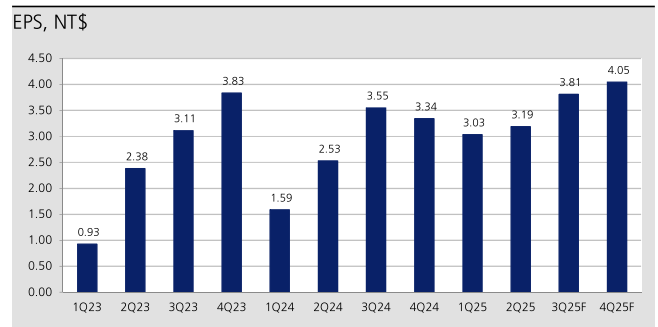
Source: KGI Research

**Figure 17: Operating Margin**


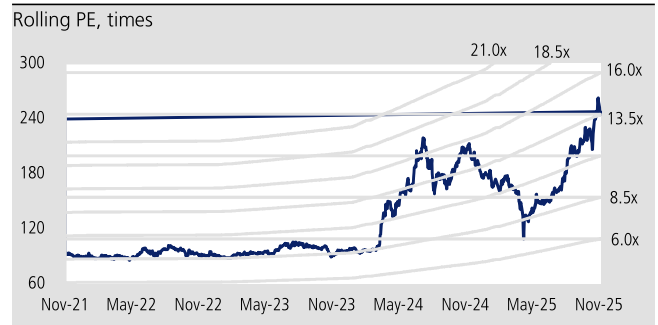
Source: KGI Research

**Figure 12: Sales by segment**


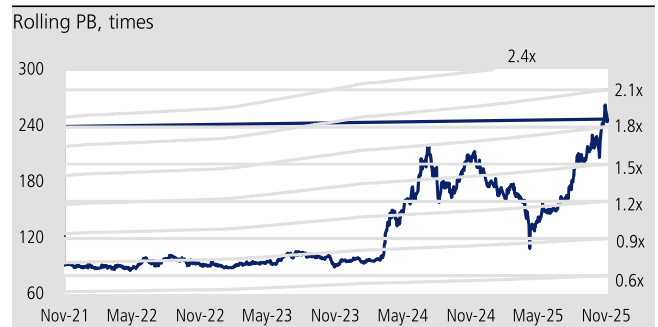
Source: Company data; KGI Research

**Figure 14: EPS**


Source: KGI Research

**Figure 16: Rolling PE**


Source: KGI Research

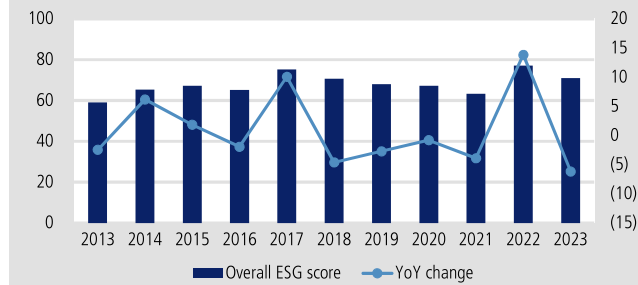
**Figure 18: Rolling PB**


Source: KGI Research



**Figure 19: Overall ESG score**

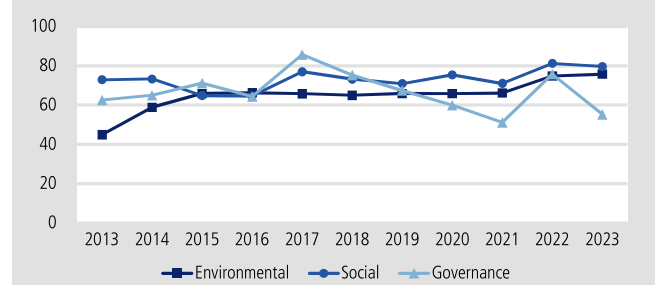
ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; Company data

**Figure20: ESG score**

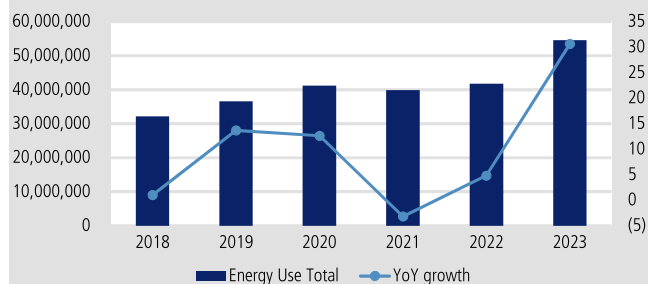
ESG score, points



Source: Refinitiv; Company data

**Figure 21: Energy use**

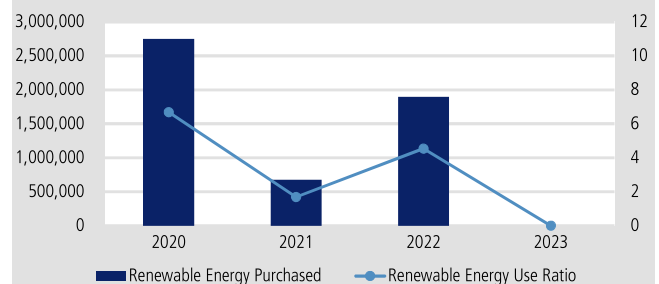
Energy use, gigajoules (LHS); YoY growth, percent (RHS)



Source: Refinitiv; Company data

**Figure 22: Renewable energy**

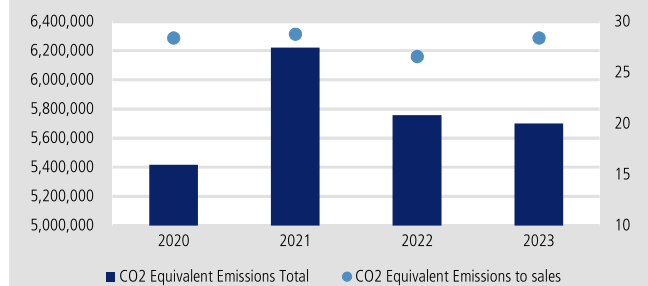
Energy use, gigajoules (LHS); use ratio, percent (RHS)



Source: Refinitiv; Company data

**Figure 23: CO2 equivalent emissions**

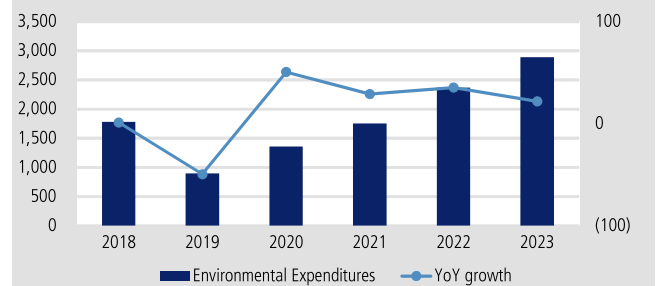
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$m (RHS)



Source: Refinitiv; Company data

**Figure 24: Environmental expenditures**

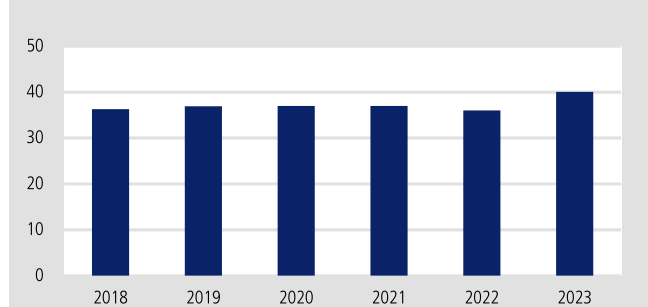
Environmental expenditures, NT\$m (LHS); YoY growth rate, percent (RHS)



Source: Refinitiv; Company data

**Figure 25: Gender diversification**

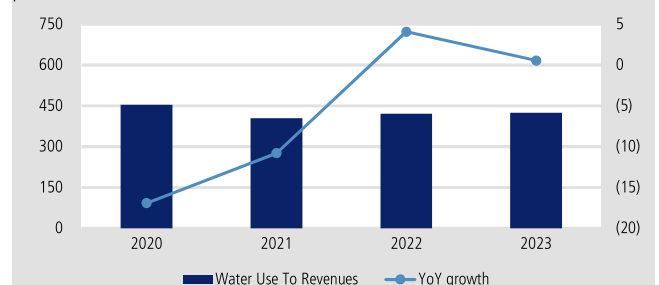
Female employees, percent



Source: Refinitiv; Company data

**Figure 26: 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"> <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\$mn)</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-24A	Jun-24A	Sep-24A	Dec-24A	Mar-25A	Jun-25A	Sep-25F	Dec-25F	Dec-24A	Dec-25F	Dec-26F
<b>Income statement (NT\$m)</b>											
Revenue	1,323,992	1,550,551	1,854,569	2,130,504	1,644,316	1,793,468	2,057,444	2,386,636	6,859,615	7,881,864	11,224,947
Cost of goods sold	(1,240,329)	(1,451,044)	(1,739,836)	(1,999,460)	(1,543,767)	(1,679,939)	(1,933,998)	(2,250,597)	(6,430,670)	(7,408,301)	(10,593,767)
<b>Gross profit</b>	<b>83,662</b>	<b>99,507</b>	<b>114,733</b>	<b>131,044</b>	<b>100,548</b>	<b>113,529</b>	<b>123,447</b>	<b>136,038</b>	<b>428,946</b>	<b>473,562</b>	<b>631,180</b>
Operating expenses	(46,912)	(54,902)	(59,962)	(66,563)	(54,048)	(56,933)	(60,695)	(66,826)	(228,339)	(238,502)	(286,252)
<b>Operating profit</b>	<b>36,751</b>	<b>44,604</b>	<b>54,771</b>	<b>64,481</b>	<b>46,500</b>	<b>56,596</b>	<b>62,752</b>	<b>69,212</b>	<b>200,607</b>	<b>235,061</b>	<b>344,928</b>
Depreciation of fixed assets	(19,473)	(18,745)	(20,752)	(25,320)	(22,620)	(22,562)	(26,453)	(34,178)	(84,290)	(105,814)	(112,047)
Amortisation of intangible assets	(792)	(743)	(870)	(1,186)	(902)	(922)	(945)	(1,012)	(3,591)	(3,780)	(5,316)
<b>EBITDA</b>	<b>57,016</b>	<b>64,092</b>	<b>76,393</b>	<b>90,988</b>	<b>70,021</b>	<b>80,081</b>	<b>90,151</b>	<b>104,402</b>	<b>288,489</b>	<b>344,655</b>	<b>462,291</b>
Interest income	15,437	11,799	8,750	9,591	8,131	7,652	7,961	8,102	45,577	31,846	28,425
Investment income	310	1,371	4,171	653	6,498	1,983	2,800	1,719	6,506	13,000	5,600
Other non-op income	1,297	2,974	8,730	4,683	5,525	7,644	7,500	3,832	17,684	24,500	11,000
<b>Non-operating income</b>	<b>17,044</b>	<b>16,144</b>	<b>21,652</b>	<b>14,927</b>	<b>20,153</b>	<b>17,278</b>	<b>18,261</b>	<b>13,653</b>	<b>69,767</b>	<b>69,346</b>	<b>45,025</b>
Interest expense	(10,636)	(9,263)	(8,770)	(8,126)	(7,533)	(8,725)	(8,280)	(8,582)	(36,795)	(33,120)	(33,716)
Investment loss	(10,649)	-	-	(1,533)	-	-	(1,000)	(1,000)	(12,183)	(2,000)	(2,000)
Other non-op expenses	-	(3,085)	-	(6,435)	-	-	(1,500)	(1,500)	(9,521)	(3,000)	(3,500)
<b>Non-operating expenses</b>	<b>(21,286)</b>	<b>(12,348)</b>	<b>(8,770)</b>	<b>(16,094)</b>	<b>(7,533)</b>	<b>(8,725)</b>	<b>(10,780)</b>	<b>(11,082)</b>	<b>(58,499)</b>	<b>(38,120)</b>	<b>(39,216)</b>
<b>Pre-tax profit</b>	<b>32,509</b>	<b>48,400</b>	<b>67,653</b>	<b>63,313</b>	<b>59,120</b>	<b>65,149</b>	<b>70,234</b>	<b>71,783</b>	<b>211,875</b>	<b>266,287</b>	<b>350,737</b>
Current taxation	(7,636)	(9,455)	(12,308)	(10,797)	(13,287)	(15,613)	(12,642)	(10,384)	(40,196)	(51,926)	(66,640)
Minorities	(2,864)	(3,900)	(6,020)	(6,191)	(3,726)	(5,176)	(4,700)	(5,198)	(18,974)	(18,800)	(21,500)
<b>Normalised net profit</b>	<b>22,009</b>	<b>35,045</b>	<b>49,325</b>	<b>46,326</b>	<b>42,108</b>	<b>44,361</b>	<b>52,891</b>	<b>56,201</b>	<b>152,705</b>	<b>195,561</b>	<b>262,597</b>
Extraordinary items	0	0	0	0	(0)	(0)	-	0	-	-	-
<b>Net profit</b>	<b>22,009</b>	<b>35,045</b>	<b>49,325</b>	<b>46,326</b>	<b>42,108</b>	<b>44,361</b>	<b>52,891</b>	<b>56,201</b>	<b>152,705</b>	<b>195,561</b>	<b>262,597</b>
EPS (NT\$)	1.59	2.53	3.55	3.34	3.03	3.19	3.81	4.05	11.01	14.08	18.90
<b>Margins (%)</b>											
Gross profit margin	6.3	6.4	6.2	6.2	6.1	6.3	6.0	5.7	6.3	6.0	5.6
Operating margin	2.8	2.9	3.0	3.0	2.8	3.2	3.1	2.9	2.9	3.0	3.1
EBITDA margin	4.3	4.1	4.1	4.3	4.3	4.5	4.4	4.4	4.2	4.4	4.1
Pretax profit margin	2.5	3.1	3.6	3.0	3.6	3.6	3.4	3.0	3.1	3.4	3.1
Net profit margin	1.7	2.3	2.7	2.2	2.6	2.5	2.6	2.4	2.2	2.5	2.3
<b>Sequential growth (%)</b>											
Revenue growth	(28.5)	17.1	19.6	14.9	(22.8)	9.1	14.7	16.0			
Gross profit growth	(26.1)	18.9	15.3	14.2	(23.3)	12.9	8.7	10.2			
Operating profit growth	(24.9)	21.4	22.8	17.7	(27.9)	21.7	10.9	10.3			
EBITDA growth	(18.8)	12.4	19.2	19.1	(23.0)	14.4	12.6	15.8			
Pretax profit growth	(51.4)	48.9	39.8	(6.4)	(6.6)	10.2	7.8	2.2			
Net profit growth	(58.6)	59.2	40.7	(6.1)	(9.1)	5.3	19.2	6.3			
<b>YoY growth (%)</b>											
Revenue growth	(9.5)	18.9	20.2	15.0	24.2	15.7	10.9	12.0	11.3	14.9	42.4
Gross profit growth	(5.3)	19.1	11.7	15.7	20.2	14.1	7.6	3.8	10.6	10.4	33.3
Operating profit growth	(9.3)	44.2	18.7	31.8	26.5	26.9	14.6	7.3	20.5	17.2	46.7
EBITDA growth	(5.1)	23.0	11.4	29.6	22.8	24.9	18.0	14.7	15.0	19.5	34.1
Pretax profit growth	59.3	1.5	18.2	(5.4)	81.9	34.6	3.8	13.4			
Net profit growth	71.6	6.2	14.4	(12.8)	91.3	26.6	7.2	21.3	7.5	28.1	34.3

Source: Company data, KGI Research estimates

## Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
<b>Total assets</b>	<b>4,133,974</b>	<b>3,939,789</b>	<b>4,394,500</b>	<b>4,673,559</b>	<b>5,377,753</b>
<b>Current assets</b>	<b>3,200,506</b>	<b>3,035,966</b>	<b>3,375,765</b>	<b>3,594,704</b>	<b>4,290,522</b>
Cash & ST securities	1,084,732	1,350,230	1,315,992	1,231,659	954,912
Inventory	939,022	730,765	835,016	964,596	1,379,359
Accounts receivable	1,098,690	872,270	1,141,418	1,315,110	1,872,913
Other current assets	78,062	82,700	83,338	83,338	83,338
<b>Non-current assets</b>	<b>933,469</b>	<b>903,823</b>	<b>1,018,734</b>	<b>1,078,855</b>	<b>1,087,231</b>
LT investments	435,825	393,134	406,269	407,203	407,626
Net fixed assets	362,405	393,967	468,838	528,024	535,977
Other assets	135,239	116,722	143,628	143,628	143,628
<b>Total liabilities</b>	<b>2,483,443</b>	<b>2,253,545</b>	<b>2,542,911</b>	<b>2,710,794</b>	<b>3,269,445</b>
<b>Current liabilities</b>	<b>2,113,814</b>	<b>1,909,335</b>	<b>2,174,818</b>	<b>2,365,871</b>	<b>2,916,319</b>
Accounts payable	1,068,941	893,119	1,133,052	1,308,883	1,871,684
Interest bearing ST liabilities	647,194	648,993	642,783	635,394	587,670
Other current liabilities	397,678	367,222	398,982	421,594	456,965
<b>Non-current liabilities</b>	<b>369,630</b>	<b>344,211</b>	<b>368,094</b>	<b>344,923</b>	<b>353,126</b>
Long-term debt	301,017	271,625	287,793	264,622	272,825
Other L-T liabilities	51,151	55,874	56,380	56,380	56,380
<b>Total equity</b>	<b>1,650,531</b>	<b>1,686,244</b>	<b>1,851,588</b>	<b>1,962,765</b>	<b>2,108,308</b>
Share capital	138,630	138,630	138,907	138,907	138,907
Retained earnings reserve	925,890	987,704	1,024,330	1,116,707	1,240,750
Minority interests	199,986	193,135	206,386	225,186	246,686
Preferred shareholders funds	-	-	-	-	-

## Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
<b>Growth</b>					
Revenue growth	10.6%	(7.0)%	11.3%	14.9%	42.4%
Operating profit growth	16.7%	(4.2)%	20.5%	17.2%	46.7%
EBITDA growth	11.5%	0.3%	15.0%	19.5%	34.1%
Net profit growth	1.6%	0.4%	7.5%	28.1%	34.3%
EPS growth	1.6%	0.4%	7.4%	27.9%	34.3%
<b>Profitability</b>					
Gross profit margin	6.0%	6.3%	6.3%	6.0%	5.6%
Operating margin	2.6%	2.7%	2.9%	3.0%	3.1%
EBITDA margin	3.8%	4.1%	4.2%	4.4%	4.1%
Net profit margin	2.1%	2.3%	2.2%	2.5%	2.3%
Return on average assets	3.5%	3.5%	3.7%	4.3%	5.2%
Return on average equity	10.0%	9.7%	9.7%	11.6%	14.6%
<b>Stability</b>					
Gross debt to equity	57.4%	54.6%	50.3%	45.9%	40.8%
Net debt to equity	Net cash	Net cash	Net cash	2.4%	13.5%
Interest coverage (x)	6.4	3.9	6.8	9.0	11.4
Interest & ST debt coverage (x)	0.2	0.2	0.2	0.3	0.3
Cash flow interest coverage(x)	3.2	6.8	4.5	5.0	(1.0)
Cash flow/int. & ST debt (x)	0.2	0.6	0.2	0.2	(0.1)
Current ratio (x)	1.5	1.6	1.6	1.5	1.5
Quick ratio (x)	1.1	1.2	1.2	1.1	1.0
Net debt (NT\$m)	(114,115)	(277,044)	(6,533)	47,241	284,468
<b>Per share data</b>					
EPS (NT\$)	10.21	10.25	11.01	14.08	18.90
CFPS (NT\$)	7.91	32.14	11.97	12.00	(2.40)
BVPS (NT\$)	104.63	107.70	118.44	125.09	134.02
Adj BVPS (NT\$)	104.65	107.72	118.58	125.09	134.02
SPS (NT\$)	478.09	444.56	494.43	567.42	808.09
EBITDA/share (NT\$)	18.05	18.10	20.79	24.81	33.28
Cash DPS (NT\$)	5.30	5.40	5.80	7.43	9.97
<b>Activity</b>					
Sales / avg assets	1.65	1.53	1.65	1.74	2.23
Days receivable	60.5	51.7	60.9	60.9	60.9
Days inventory	55.0	46.2	47.5	47.5	47.5
Days payable	62.7	56.5	64.5	64.5	64.5
Cash cycle	52.9	41.4	43.9	43.9	43.9

Source: Company data, KGI Research estimates

## Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
<b>Revenue</b>	<b>6,626,997</b>	<b>6,162,221</b>	<b>6,859,615</b>	<b>7,881,864</b>	<b>11,224,947</b>
Cost of goods sold	(6,226,912)	(5,774,274)	(6,430,670)	(7,408,301)	(10,593,767)
<b>Gross profit</b>	<b>400,085</b>	<b>387,947</b>	<b>428,946</b>	<b>473,562</b>	<b>631,180</b>
Operating expenses	(226,297)	(221,419)	(228,339)	(238,502)	(286,252)
<b>Operating profit</b>	<b>173,788</b>	<b>166,528</b>	<b>200,607</b>	<b>235,061</b>	<b>344,928</b>
<b>Non-operating income</b>	<b>64,268</b>	<b>114,525</b>	<b>69,767</b>	<b>69,346</b>	<b>45,025</b>
Interest income	43,303	81,700	45,577	31,846	28,425
Investment income	11,063	5,222	6,506	13,000	5,600
Other non-op income	9,902	27,603	17,684	24,500	11,000
<b>Non-operating expenses</b>	<b>(50,544)</b>	<b>(88,829)</b>	<b>(58,499)</b>	<b>(38,120)</b>	<b>(39,216)</b>
Interest expense	(34,736)	(65,543)	(36,795)	(33,120)	(33,716)
Investment loss	-	(18,952)	(12,183)	(2,000)	(2,000)
Other non-op expenses	(15,808)	(4,334)	(9,521)	(3,000)	(3,500)
<b>Pre-tax profit</b>	<b>187,511</b>	<b>192,224</b>	<b>211,875</b>	<b>266,287</b>	<b>350,737</b>
Current taxation	(36,440)	(37,435)	(40,196)	(51,926)	(66,640)
Minorities	(9,589)	(12,691)	(18,974)	(18,800)	(21,500)
Extraordinary items	-	(0)	0	-	-
<b>Net profit</b>	<b>141,483</b>	<b>142,098</b>	<b>152,705</b>	<b>195,561</b>	<b>262,597</b>
<b>EBITDA</b>	<b>250,248</b>	<b>250,934</b>	<b>288,489</b>	<b>344,655</b>	<b>462,291</b>
EPS (NT\$)	10.21	10.25	11.01	14.08	18.90

## Cash flow

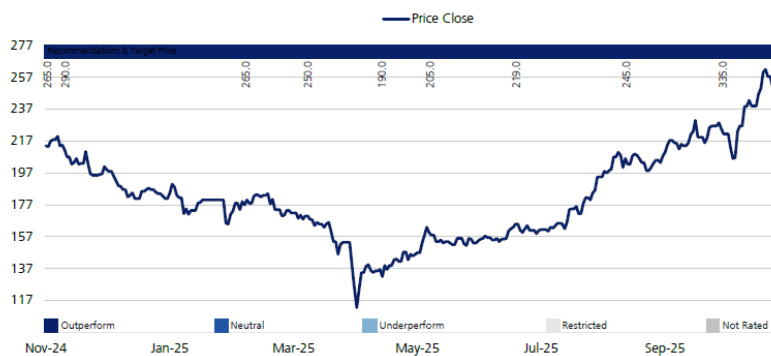
NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
<b>Operations cash flow</b>	<b>109,708</b>	<b>445,553</b>	<b>166,029</b>	<b>166,713</b>	<b>(33,403)</b>
Net profit	141,483	142,098	152,705	195,561	262,597
Depreciation & amortisation	76,460	84,406	87,882	109,594	117,364
Decrease in working capital	(197,434)	247,995	(105,479)	(127,442)	(409,764)
Other operating cash flow	89,199	(28,946)	30,921	(11,000)	(3,600)
<b>Investing cash flow</b>	<b>(45,440)</b>	<b>(137,874)</b>	<b>(300,046)</b>	<b>(158,714)</b>	<b>(122,140)</b>
Sale of ST investment	29,944	(132,622)	(215,737)	-	-
New investments	(45,351)	23,845	(3,713)	10,066	3,177
Capital expenditure	(97,935)	(111,745)	(136,339)	(165,000)	(120,000)
Others investing cashflow	67,902	82,647	55,743	(3,780)	(5,316)
<b>Free cash flow</b>	<b>(84,746)</b>	<b>349,020</b>	<b>5,021</b>	<b>2,595</b>	<b>(138,325)</b>
<b>Financing cash flow</b>	<b>(87,872)</b>	<b>(160,638)</b>	<b>(164,072)</b>	<b>(92,332)</b>	<b>(121,204)</b>
Increase in short term debt	23,682	(74,237)	(25,783)	(40,000)	(40,000)
Increase in long term loans	7,242	27,361	(8,480)	9,440	480
New ordinary shares issued	(7,763)	4,805	-	-	-
Ordinary dividends paid	(79,026)	(80,722)	(83,134)	(80,572)	(103,184)
Other financing cashflow	(32,006)	(37,845)	(46,675)	18,800	21,500
<b>Forex effects</b>	<b>26,512</b>	<b>(11,704)</b>	<b>37,534</b>		
<b>Total cash generated</b>	<b>2,909</b>	<b>135,336</b>	<b>(260,555)</b>	<b>(84,333)</b>	<b>(276,747)</b>

## ROIC

	Dec-22A				
1 - COGS/revenue					
- Operating exp./revenue	3.4%	3.6%	3.3%	3.0%	2.6%
<b>= Operating margin</b>	<b>2.6%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>3.0%</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	0.1	0.1	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
<b>= Capital turnover</b>	<b>6.4</b>	<b>7.4</b>	<b>6.7</b>	<b>6.7</b>	<b>7.2</b>
Operating margin	2.6%	2.7%	2.9%	3.0%	3.1%
x Capital turnover	6.4	7.4	6.7	6.7	7.2
x (1 - tax rate)	80.6%	80.5%	81.0%	80.5%	81.0%
<b>= After-tax ROIC</b>	<b>13.5%</b>	<b>16.1%</b>	<b>16.0%</b>	<b>16.0%</b>	<b>17.9%</b>

Source: Company data, KGI Research estimates

## Hon Hai – Recommendation & target price history



Source: TEJ, KGI Research

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