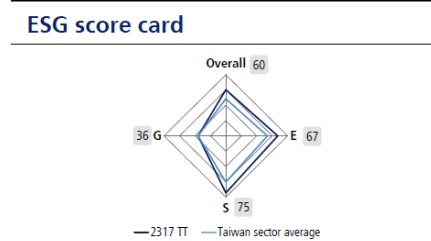


# Hon Hai Precision (2317.TW/2317 TT)

## Diversifying AI model & client base

FTSE4Good TIP Taiwan ESG Index stock				
<b>Outperform · Maintained</b>				
Price as of May 26 (NT\$)	259.0			
12M target price (NT\$)	315.0			
Previous target price (NT\$)	315.0			
Unchanged (%)	0.0			
Upside (%)	21.6			
<b>Key message</b>				
<ol style="list-style-type: none"> <li>With better-than-expected 1Q26 EPS of NT\$3.56 and an operating margin beat, Hon Hai's 2Q26F outlook is bright.</li> <li>Nvidia (US) GB300 AI server rack shipments will grow QoQ, while ASIC AI server sales will expand from over 10% in 1Q26 to between 15-20% in 2026F, supporting margins.</li> <li>The key 2026-27F sales and earnings growth driver will be AI server sales; new AI server clients &amp; projects to double AI shipments in 2026F, and raise the cloud sales weighting to 57% in 2026F and 65% in 2027F.</li> </ol>				
<b>Trading data</b>				
Mkt cap (NT\$bn/US\$m)	3,633 /15,649			
Outstanding shares (mn)	14,029			
Foreign ownership (mn)	5,278			
3M avg. daily trading (mn)	48.96			
52-week trading range (NT\$)	151.5 -262.0			
<b>Performance</b>				
	<b>3M</b>	<b>6M</b>	<b>12M</b>	
Absolute (%)	6.6	14.1	69.3	
Relative (%)	-16.3	-44.7	-32.8	
<b>Quarterly EPS</b>				
NT\$	1Q	2Q	3Q	4Q
2024	1.59A	2.53A	3.55A	3.34A
2025	3.03A	3.19A	4.15A	3.23A
2026	3.56A	4.09F	4.59F	5.64F

Quarterly EPS				
NT\$	1Q	2Q	3Q	4Q
2024	1.59A	2.53A	3.55A	3.34A
2025	3.03A	3.19A	4.15A	3.23A
2026	3.56A	4.09F	4.59F	5.64F



### Event

After Hon Hai reported better-than-expected 1Q26 EPS of NT\$3.56 (up 10% QoQ and up 19% YoY), we expect 2Q26F sales and EPS to grow by double digits QoQ. The firm's operating margin should improve YoY in 2026F with consignment ASIC AI server sales.

### Impact

**Solid 1Q26 earnings; positive AI server guidance maintained.** Hon Hai's cloud sales weighting expanded to 48% in 1Q26, implying 81% YoY growth despite an 8% QoQ sales decline. This was due to QoQ server sales growth alongside falling networking sales in 1Q26, which caused the firm's server sales weighting to rise to nearly 90% of cloud sales in 1Q26. AI server sales grew YoY and QoQ, and comprised nearly 70% of total server sales in 1Q26, owing to GB300 and ASIC AI server sales growth. With the ASIC AI server sales weighting expanding to more than 10% of total AI server sales in 1Q26, combined with consignment model ASIC AI sales (excluding key component values), 1Q26 gross margin increased QoQ and YoY to 6.2%. With higher overall sales, the firm's operating margin also improved YoY and QoQ to 3.6%, beating our forecast and consensus. Management guides cloud server sales to grow by more than 15% YoY and QoQ in 2Q26F, thanks to increased GB300 AI server rack shipments, and some ASIC AI sales growth to three CSP clients (mainly to Google (US) and Amazon (US)). With more new project wins, the ASIC AI server sales weighting will reach 15-20% of total AI server sales in 2026F, which will be accretive to gross and operating margins. Along with flat consumer electronics (CE) and component sales QoQ, and 5-14% QoQ growth for computing sales in 2Q26F, we expect total 2Q26F sales to grow by 11% QoQ, with stable operating margin. 1H26F EPS is thus revised up to reflect better margins.

**CPO, LPU & switch sales to rise in 2H26-2027F.** Hon Hai guides commencement of CPO shipments from 3Q26F, and we expect Spectrum shipments to make up the majority of those. Although 2H26F Spectrum shipments may start from 10k units or so, Hon Hai's shipments in 1H27F may grow by 3-4x HoH, which will be reflected in CPO sales growth and positively impact margins. Language processing unit (LPU) racks will start to ship from 2H26F as well, with global production dominated by Hon Hai. Coupled with the firm's GPU and ASIC AI server shipments doubling YoY in 2026F, and double-digit general server sales growth YoY, we expect the cloud sales weighting to expand from 40% in 2025 to 54% in 2026F, and to nearly 61% in 2027F, and be the key sales and EPS growth driver. Although high-ASP Vera Rubin racks will dilute margins, we expect operating margin to remain above 3% in 2H26-2027F. Our 2026F EPS is revised to NT\$17.94, up 32% YoY, and 2027F EPS to NT\$21.46, up 20% YoY.

### Valuation & Action

We maintain our target price at NT\$315 (16x average 2026-27F EPS) and our Outperform rating, on growing competitiveness in the AI server market.

### Risks

New AI generation delay; weakening global demand; NT dollar appreciation.

### Key financials and valuations

	Dec-23A	Dec-24A	Dec-25A	Dec-26F	Dec-27F
Revenue (NT\$m)	6,162,221	6,859,615	8,103,105	10,718,586	13,241,654
Gross profit (NT\$m)	387,947	428,946	498,161	637,266	749,390
Operating profit (NT\$m)	166,528	200,607	259,223	369,252	437,242
Net profit (NT\$m)	142,098	152,705	189,354	250,580	299,628
EPS (NT\$)	10.25	11.01	13.61	17.94	21.46
Cash DPS (NT\$)	5.40	5.80	7.20	9.56	11.44
EPS growth (%)	0.4	7.4	23.7	31.8	19.6
PE (x)	25.3	23.5	19.0	14.4	12.1
PB (x)	2.4	2.2	2.0	1.9	1.8
EV/EBITDA (x)	11.3	10.9	9.3	7.7	6.9
Net debt to equity (%)	Net cash	Net cash	11.7	22.6	28.2
Dividend yield (%)	2.1	2.2	2.8	3.7	4.4
Return on average equity (%)	9.7	9.7	11.1	13.7	15.3

Source: Company data; KGI Research estimates

**Figure 1: Breakdown of 1Q26 results & 2Q26 forecast revisions vs. consensus**

NT\$m	1Q26							2Q26F						
	KGI		Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Actual	forecast													
Sales	2,119,533	2,176,321	(2.6)	(18.7)	28.9	2,148,713	(1.4)	2,352,682	2,502,769	(6.0)	11.0	31.2	2,367,513	(0.6)
Gross profits	130,981	126,227	3.8	(14.6)	30.3	128,600	1.9	144,690	145,161	(0.3)	10.5	27.4	143,329	0.9
Operating income	75,649	66,378	14.0	(11.6)	62.7	66,916	13.0	84,697	78,337	8.1	12.0	49.7	79,320	6.8
Pretax Income	74,031	67,320	10.0	(10.0)	25.2	70,919	4.4	86,244	79,279	8.8	16.5	32.4	85,035	1.4
Net income	49,919	45,104	10.7	10.4	18.6	48,008	4.0	57,352	53,117	8.0	14.9	29.3	56,827	0.9
EPS (NT\$)	3.56	3.22	10.7	10.4	18.6	3.43	4.0	4.09	3.79	8.0	14.9	28.3	4.06	0.9
Gross margin (%)	6.2	5.8	0.4 ppts	0.3 ppts	0.1 ppts	6.0	0.2 ppts	6.1	5.8	0.3 ppts	(0.0)ppts	(0.2)ppts	6.1	0.1 ppts
OP margin (%)	3.6	3.1	0.5 ppts	0.3 ppts	0.7 ppts	3.1	0.5 ppts	3.6	3.1	0.5 ppts	0.0 ppts	0.4 ppts	3.4	0.2 ppts
Net margin (%)	2.4	2.1	0.3 ppts	0.6 ppts	(0.2)ppts	2.2	0.1 ppts	2.4	2.1	0.3 ppts	0.1 ppts	(0.0)ppts	2.4	0.0 ppts

Source: Company data; Bloomberg; KGI Research

**Figure 2: Breakdown of 2026-27 forecast revisions vs. consensus**

NT\$m	2026F						2027F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	10,718,586	11,229,336	(4.5)	32.3	10,284,337	4.2	13,241,654	13,463,494	(1.6)	23.5	12,662,047	4.6
Gross profit	637,266	654,305	(2.6)	27.9	622,614	2.4	749,390	762,057	(1.7)	17.6	741,110	1.1
Operating income	369,252	360,873	2.3	42.4	351,267	5.1	437,242	437,381	(0.0)	18.4	423,005	3.4
Pretax Income	375,440	364,642	3.0	27.9	366,086	2.6	443,505	431,457	2.8	18.1	444,529	(0.2)
Net income	250,580	244,481	2.5	32.3	247,132	1.4	299,628	288,593	3.8	19.6	300,403	(0.3)
EPS (NT\$)	17.94	17.51	2.5	31.8	17.70	1.4	21.46	20.67	3.8	19.6	21.51	(0.3)
Gross margin (%)	5.9	5.8	0.1 ppts	(0.2)ppts	6.1	(0.1)ppts	5.7	5.7	(0.0)ppts	(0.3)ppts	5.9	(0.2)ppts
OP margin (%)	3.4	3.2	0.2 ppts	0.2 ppts	3.4	0.0 ppts	3.3	3.2	0.1 ppts	(0.1)ppts	3.3	(0.0)ppts
Net margin (%)	2.3	2.2	0.2 ppts	0.0 ppts	2.4	(0.1)ppts	2.3	2.1	0.1 ppts	(0.1)ppts	2.4	(0.1)ppts

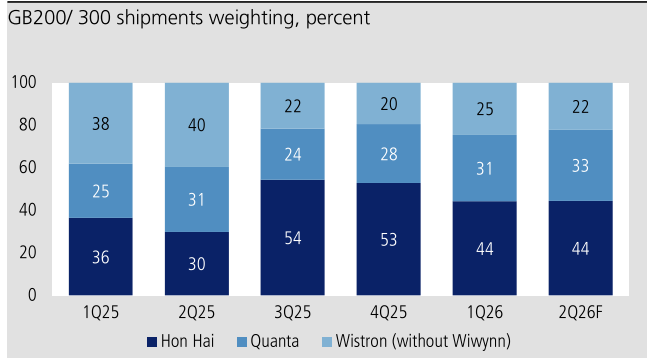
Source: Company data; Bloomberg; KGI Research estimates

**Figure 3: Sales mix**

Sales (NT\$bn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2023	2024	2025	2026F	2027F
Consumer electronics	634	621	829	1,071	658	632	767	1,028	704	711	3,366	3,155	3,084	3,238	3,271
Cloud	373	502	585	563	560	729	859	1,098	1,015	1,213	1,358	2,024	3,246	5,760	8,093
Computing	238	333	315	369	316	317	304	294	293	310	1,079	1,255	1,230	1,169	1,146
Components/Others	79	94	125	128	111	116	129	186	108	118	359	425	542	551	732
Total	1,324	1,551	1,855	2,131	1,644	1,793	2,059	2,606	2,120	2,353	6,162	6,860	8,103	10,719	13,242
Weighting (%)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2023	2024	2025	2026F	2027F
Consumer electronics	48	40	45	50	40	35	37	39	33	30	54	46	38	30	25
Cloud	28	32	32	26	34	41	42	42	48	52	22	30	40	54	61
Computing	18	22	17	17	19	18	15	11	14	13	18	18	15	11	9
Components/Others	6	6	7	6	7	6	6	7	5	5	6	6	7	5	6
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
YoY (%)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2023	2024	2025	2026F	2027F
Consumer electronics	(23)	(3)	(0)	(0)	4	2	(8)	(4)	7	12	(4)	(6)	(2)	5	1
Cloud	15	54	72	52	50	45	47	95	81	66	(13)	49	60	77	41
Computing	(4)	28	14	26	33	(5)	(4)	(20)	(7)	(2)	(11)	16	(2)	(5)	(2)
Components/Others	10	19	35	11	41	24	4	45	(2.8)	2.5	(2)	19	27	2	33
Total	(9)	19	20	15	24	16	11	22	29	31	(7)	11	18	32	24
QoQ (%)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2023	2024	2025	2026F	2027F
Consumer electronics	(41)	(2)	33	29	(39)	(4)	21	34	(31)	1					
Cloud	1	35	17	(4)	(1)	30	18	28	(8)	20					
Computing	(18)	40	(5)	17	(14)	0	(4)	(3)	(1)	6					
Components/Others	(32)	19	33	3	(14)	4	12	44	(42)	10					
Total	(29)	17	20	15	(23)	9	15	27	(19)	11					

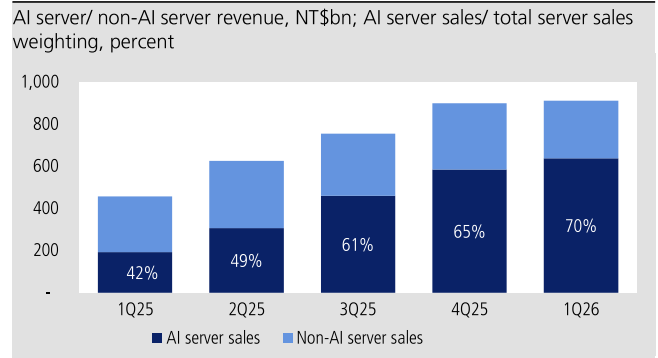
Source: Company data; KGI Research estimates

**Figure 4: Hon Hai dominant in GB AI shipments, with over 40% market share**



Source: Company data; KGI Research estimates

**Figure 5: Hon Hai's AI server sales to rise QoQ in each of 1Q-4Q26F**



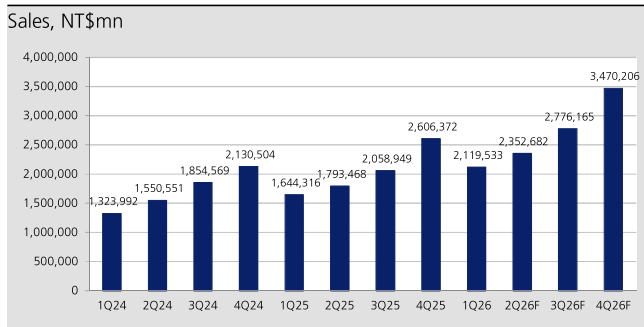
Source: Company data; KGI Research estimates

**Figure 6: 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.

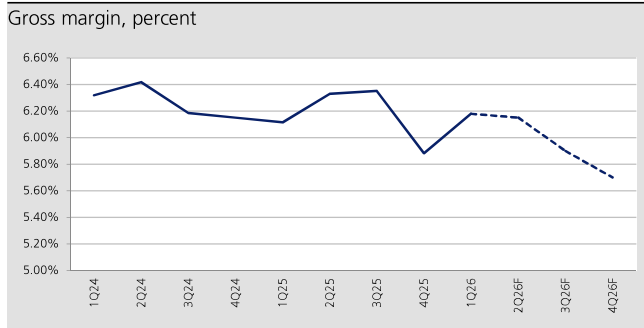
Source: Company data; KGI Research

**Figure 8: Sales**



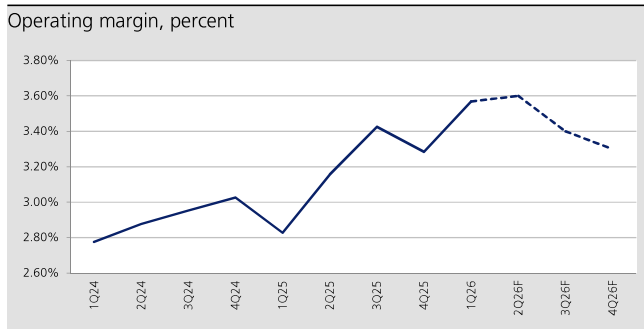
Source: KGI Research

**Figure 10: Gross Margin**



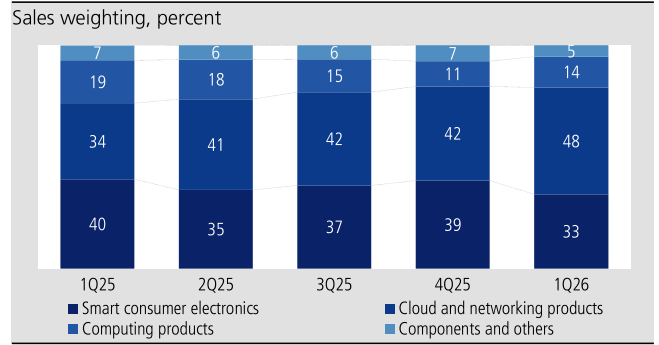
Source: KGI Research

**Figure 12: Operating Margin**



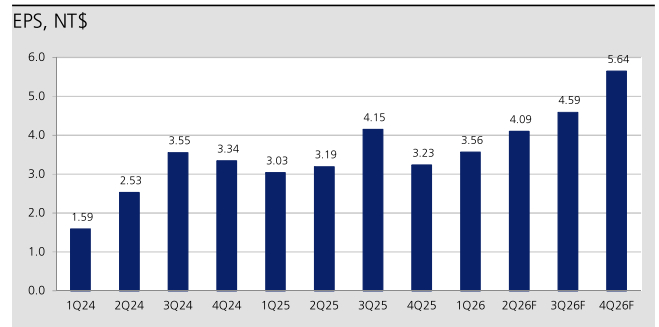
Source: KGI Research

**Figure 7: Sales by segment**



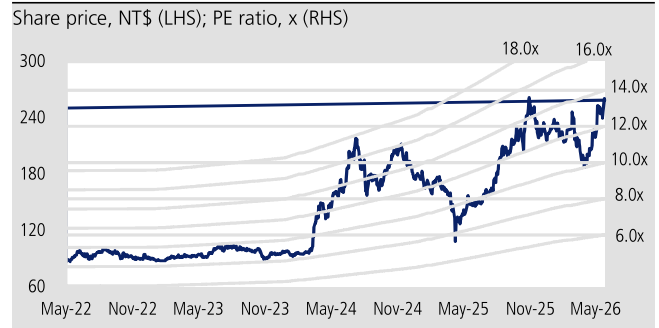
Source: Company data; KGI Research

**Figure 9: EPS**



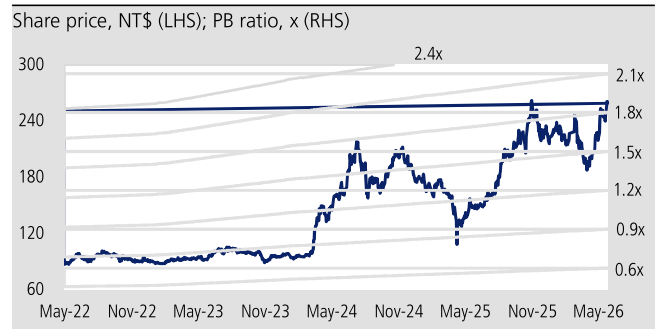
Source: KGI Research

**Figure 11: 12M forward PE band**



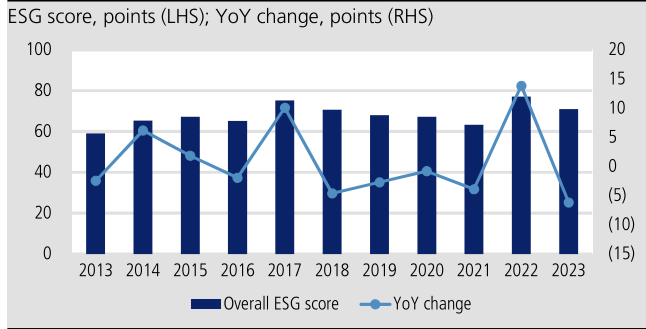
Source: KGI Research

**Figure 13: 12M forward PB band**



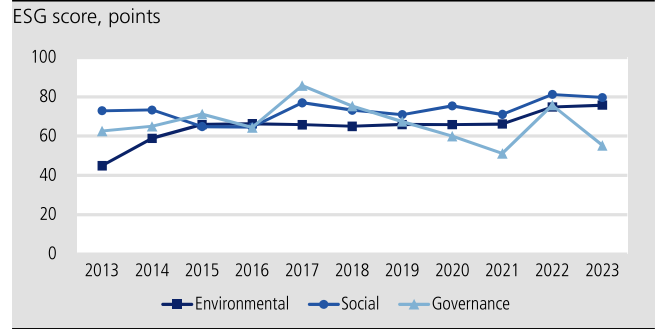
Source: KGI Research

**Figure 14: Overall ESG score**



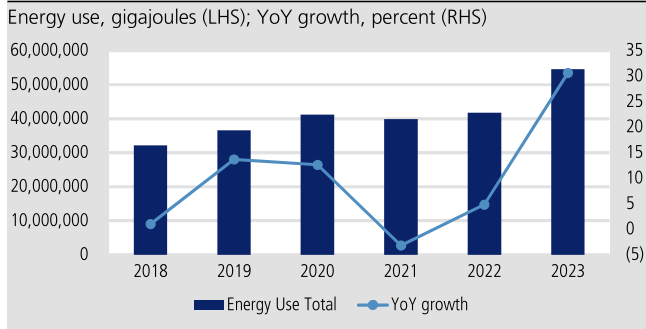
Source: Refinitiv; Company data

**Figure 15: ESG score**



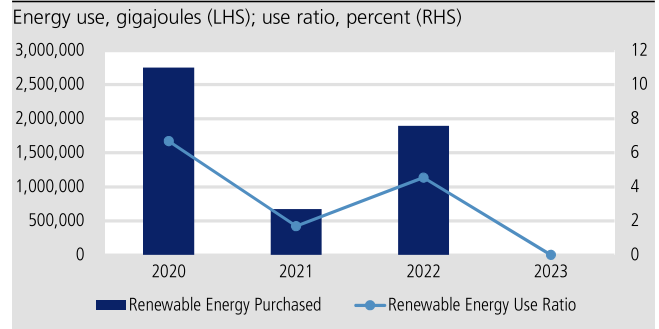
Source: Refinitiv; Company data

**Figure 16: Energy use**



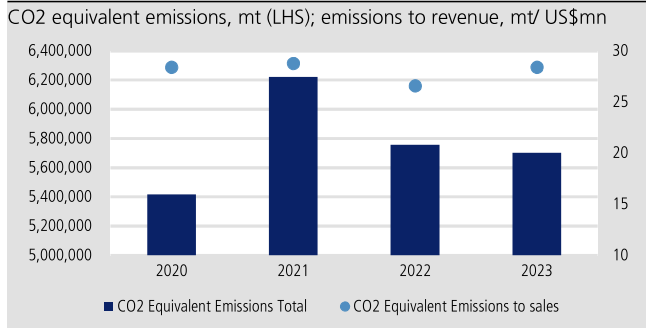
Source: Refinitiv; Company data

**Figure 17: Renewable energy**



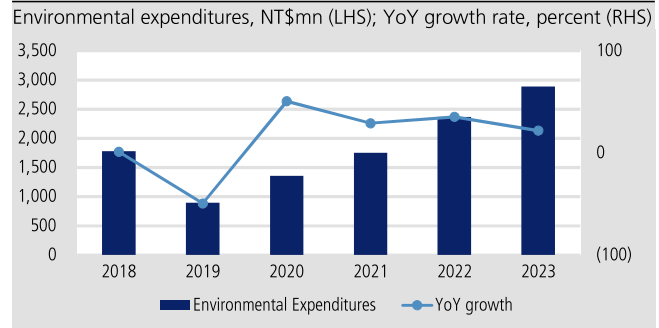
Source: Refinitiv; Company data

**Figure 18: CO2 equivalent emissions**



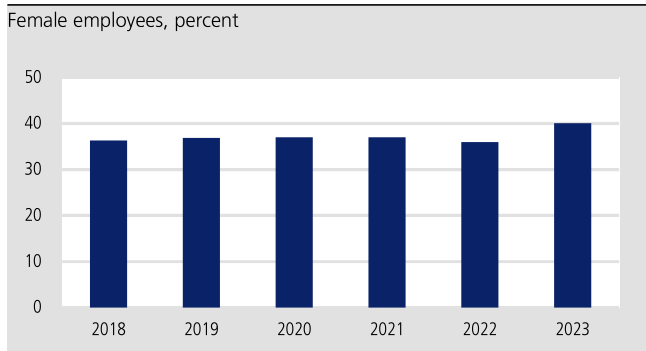
Source: Refinitiv; Company data

**Figure 19: Environmental expenditures**



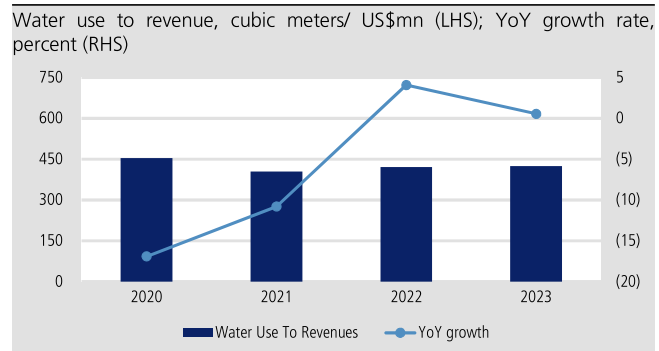
Source: Refinitiv; Company data

**Figure 20: Gender diversification**



Source: Refinitiv; Company data

**Figure 21: 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-25A	Jun-25A	Sep-25A	Dec-25A	Mar-26A	Jun-26F	Sep-26F	Dec-26F	Dec-25A	Dec-26F	Dec-27F
<b>Income statement (NT\$m)</b>											
Revenue	1,644,316	1,793,468	2,058,949	2,606,372	2,119,533	2,352,682	2,776,165	3,470,206	8,103,105	10,718,586	13,241,654
Cost of goods sold	(1,543,767)	(1,679,939)	(1,928,192)	(2,453,045)	(1,988,553)	(2,207,992)	(2,612,371)	(3,272,404)	(7,604,944)	(10,081,320)	(12,492,264)
<b>Gross profit</b>	<b>100,548</b>	<b>113,529</b>	<b>130,757</b>	<b>153,327</b>	<b>130,981</b>	<b>144,690</b>	<b>163,794</b>	<b>197,802</b>	<b>498,161</b>	<b>637,266</b>	<b>749,390</b>
Operating expenses	(54,048)	(56,933)	(60,220)	(67,736)	(55,332)	(59,993)	(69,404)	(83,285)	(238,938)	(268,014)	(312,148)
<b>Operating profit</b>	<b>46,500</b>	<b>56,596</b>	<b>70,536</b>	<b>85,591</b>	<b>75,649</b>	<b>84,697</b>	<b>94,390</b>	<b>114,517</b>	<b>259,223</b>	<b>369,252</b>	<b>437,242</b>
Depreciation of fixed assets	(22,620)	(22,562)	(24,079)	(24,936)	(25,883)	(26,111)	(26,111)	(26,340)	(94,198)	(104,446)	(127,295)
Amortisation of intangible assets	(902)	(922)	(872)	(859)	(917)	(929)	(929)	(941)	(3,555)	(3,716)	(3,581)
<b>EBITDA</b>	<b>70,021</b>	<b>80,081</b>	<b>95,488</b>	<b>111,386</b>	<b>102,449</b>	<b>111,737</b>	<b>121,430</b>	<b>141,798</b>	<b>356,976</b>	<b>477,414</b>	<b>568,118</b>
Interest income	8,131	7,652	7,118	8,109	7,842	7,438	7,438	7,034	31,010	29,753	27,666
Investment income	6,498	1,983	5,665	3,530	844	2,000	2,000	3,156	17,676	8,000	8,000
Other non-op income	5,525	7,644	13,348	3,543	1,459	5,000	5,000	8,541	30,059	20,000	19,000
<b>Non-operating income</b>	<b>20,153</b>	<b>17,278</b>	<b>26,131</b>	<b>15,182</b>	<b>10,146</b>	<b>14,438</b>	<b>14,438</b>	<b>18,731</b>	<b>78,744</b>	<b>57,753</b>	<b>54,666</b>
Interest expense	(7,533)	(8,725)	(9,774)	(12,065)	(11,031)	(11,391)	(11,391)	(11,752)	(38,096)	(45,565)	(42,903)
Investment loss	-	-	-	-	(2,544)	(500)	(500)	1,544	-	(2,000)	(2,000)
Other non-op expenses	-	-	-	(6,426)	1,812	(1,000)	(1,000)	(3,812)	(6,426)	(4,000)	(3,500)
<b>Non-operating expenses</b>	<b>(7,533)</b>	<b>(8,725)</b>	<b>(9,774)</b>	<b>(18,491)</b>	<b>(11,763)</b>	<b>(12,891)</b>	<b>(12,891)</b>	<b>(14,019)</b>	<b>(44,523)</b>	<b>(51,565)</b>	<b>(48,403)</b>
<b>Pre-tax profit</b>	<b>59,120</b>	<b>65,149</b>	<b>86,893</b>	<b>82,282</b>	<b>74,031</b>	<b>86,244</b>	<b>95,937</b>	<b>119,228</b>	<b>293,445</b>	<b>375,440</b>	<b>443,505</b>
Current taxation	(13,287)	(15,613)	(20,863)	(28,648)	(17,075)	(21,561)	(23,984)	(31,240)	(78,410)	(93,860)	(110,876)
Minorities	(3,726)	(5,176)	(8,358)	(8,421)	(7,037)	(7,331)	(7,675)	(8,958)	(25,681)	(31,000)	(33,000)
<b>Normalised net profit</b>	<b>42,108</b>	<b>44,361</b>	<b>57,673</b>	<b>45,212</b>	<b>49,919</b>	<b>57,352</b>	<b>64,278</b>	<b>79,031</b>	<b>189,354</b>	<b>250,580</b>	<b>299,628</b>
Extraordinary items	(0)	(0)	0	(0)	0	-	-	(0)	-	-	-
<b>Net profit</b>	<b>42,108</b>	<b>44,361</b>	<b>57,673</b>	<b>45,212</b>	<b>49,919</b>	<b>57,352</b>	<b>64,278</b>	<b>79,031</b>	<b>189,354</b>	<b>250,580</b>	<b>299,628</b>
EPS (NT\$)	3.03	3.19	4.15	3.23	3.56	4.09	4.59	5.64	13.61	17.94	21.46
<b>Margins (%)</b>											
Gross profit margin	6.1	6.3	6.4	5.9	6.2	6.1	5.9	5.7	6.1	5.9	5.7
Operating margin	2.8	3.2	3.4	3.3	3.6	3.6	3.4	3.3	3.2	3.4	3.3
EBITDA margin	4.3	4.5	4.6	4.3	4.8	4.7	4.4	4.1	4.4	4.5	4.3
Pretax profit margin	3.6	3.6	4.2	3.2	3.5	3.7	3.5	3.4	3.6	3.5	3.3
Net profit margin	2.6	2.5	2.8	1.7	2.4	2.4	2.3	2.3	2.3	2.3	2.3
<b>Sequential growth (%)</b>											
Revenue growth	(22.8)	9.1	14.8	26.6	(18.7)	11.0	18.0	25.0			
Gross profit growth	(23.3)	12.9	15.2	17.3	(14.6)	10.5	13.2	20.8			
Operating profit growth	(27.9)	21.7	24.6	21.3	(11.6)	12.0	11.4	21.3			
EBITDA growth	(23.0)	14.4	19.2	16.6	(8.0)	9.1	8.7	16.8			
Pretax profit growth	(6.6)	10.2	33.4	(5.3)	(10.0)	16.5	11.2	24.3			
Net profit growth	(9.1)	5.3	30.0	(21.6)	10.4	14.9	12.1	23.0			
<b>YoY growth (%)</b>											
Revenue growth	24.2	15.7	11.0	22.3	28.9	31.2	34.8	33.1	18.1	32.3	23.5
Gross profit growth	20.2	14.1	14.0	17.0	30.3	27.4	25.3	29.0	16.1	27.9	17.6
Operating profit growth	26.5	26.9	28.8	32.7	62.7	49.7	33.8	33.8	29.2	42.4	18.4
EBITDA growth	22.8	24.9	25.0	22.4	46.3	39.5	27.2	27.3	23.7	33.7	19.0
Pretax profit growth	81.9	34.6	28.4	30.0	25.2	32.4	10.4	44.9	38.5	27.9	18.1
Net profit growth	91.3	26.6	16.9	(2.4)	18.6	29.3	11.5	74.8	24.0	32.3	19.6

Source: Company data; KGI Research estimates

**Balance sheet**

NT\$m	Dec-23A	Dec-24A	Dec-25A	Dec-26F	Dec-27F
<b>Total assets</b>	<b>3,939,789</b>	<b>4,394,500</b>	<b>5,104,672</b>	<b>5,677,429</b>	<b>6,260,576</b>
<b>Current assets</b>	<b>3,035,966</b>	<b>3,375,765</b>	<b>3,961,827</b>	<b>4,408,978</b>	<b>4,918,038</b>
Cash & ST securities	1,350,230	1,315,992	1,596,804	1,305,909	1,099,822
Inventory	730,765	835,016	1,095,574	1,452,323	1,799,646
Accounts receivable	872,270	1,141,418	1,181,307	1,562,604	1,930,428
Other current assets	82,700	83,338	88,143	88,143	88,143
<b>Non-current assets</b>	<b>903,823</b>	<b>1,018,734</b>	<b>1,142,845</b>	<b>1,268,450</b>	<b>1,342,538</b>
LT investments	393,134	406,269	447,044	451,204	452,587
Net fixed assets	393,967	468,838	543,393	664,839	737,544
Other assets	116,722	143,628	152,407	152,407	152,407
<b>Total liabilities</b>	<b>2,253,545</b>	<b>2,542,911</b>	<b>3,133,909</b>	<b>3,558,653</b>	<b>3,968,883</b>
<b>Current liabilities</b>	<b>1,909,335</b>	<b>2,174,818</b>	<b>2,710,849</b>	<b>3,198,034</b>	<b>3,585,619</b>
Accounts payable	893,119	1,133,052	1,331,933	1,765,647	2,187,900
Interest bearing ST liabilities	648,993	642,783	940,441	961,278	900,464
Other current liabilities	367,222	398,982	438,475	471,110	497,255
<b>Non-current liabilities</b>	<b>344,211</b>	<b>368,094</b>	<b>423,060</b>	<b>360,618</b>	<b>383,265</b>
Long-term debt	271,625	287,793	306,086	243,644	266,290
Other L-T liabilities	55,874	56,380	86,234	86,234	86,234
<b>Total equity</b>	<b>1,686,244</b>	<b>1,851,588</b>	<b>1,970,763</b>	<b>2,118,776</b>	<b>2,291,693</b>
Share capital	138,630	138,907	139,642	139,642	139,642
Retained earnings reserve	987,704	1,024,330	1,187,661	1,304,674	1,444,591
Minority interests	193,135	206,386	197,992	228,992	261,992
Preferred shareholders funds	-	-	-	-	-

**Key ratios**

	Dec-23A	Dec-24A	Dec-25A	Dec-26F	Dec-27F
<b>Growth</b>					
Revenue growth	(7.0%)	11.3%	18.1%	32.3%	23.5%
Operating profit growth	(4.2%)	20.5%	29.2%	42.4%	18.4%
EBITDA growth	0.3%	15.0%	23.7%	33.7%	19.0%
Net profit growth	0.4%	7.5%	24.0%	32.3%	19.6%
EPS growth	0.4%	7.4%	23.7%	31.8%	19.6%
<b>Profitability</b>					
Gross profit margin	6.3%	6.3%	6.1%	5.9%	5.7%
Operating margin	2.7%	2.9%	3.2%	3.4%	3.3%
EBITDA margin	4.1%	4.2%	4.4%	4.5%	4.3%
Net profit margin	2.3%	2.2%	2.3%	2.3%	2.3%
Return on average assets	3.5%	3.7%	4.0%	4.6%	5.0%
Return on average equity	9.7%	9.7%	11.1%	13.7%	15.3%
<b>Stability</b>					
Gross debt to equity	54.6%	50.3%	63.3%	56.9%	50.9%
Net debt to equity	Net cash	Net cash	11.7%	22.6%	28.2%
Interest coverage (x)	3.9	6.8	8.7	9.2	11.3
Interest & ST debt coverage (x)	0.2	0.2	0.2	0.2	0.3
Cash flow interest coverage(x)	6.8	4.5	6.0	1.1	3.1
Cash flow/int. & ST debt (x)	0.6	0.2	0.2	0.0	0.1
Current ratio (x)	1.6	1.6	1.5	1.4	1.4
Quick ratio (x)	1.2	1.2	1.1	0.9	0.9
Net debt (NT\$m)	(277,044)	(6,533)	230,087	479,376	647,295
<b>Per share data</b>					
EPS (NT\$)	10.25	11.01	13.61	17.94	21.46
CFPS (NT\$)	32.14	11.97	16.31	3.47	9.42
BVPS (NT\$)	107.70	118.44	126.95	135.33	145.35
Adj BVPS (NT\$)	107.72	118.58	127.42	135.33	145.35
SPS (NT\$)	444.56	494.43	582.42	767.57	948.26
EBITDA/share (NT\$)	18.10	20.79	25.66	34.19	40.68
Cash DPS (NT\$)	5.40	5.80	7.20	9.56	11.44
<b>Activity</b>					
Sales / avg assets	1.53	1.65	1.71	1.99	2.22
Days receivable	51.7	60.9	53.2	53.2	53.2
Days inventory	46.2	47.5	52.6	52.6	52.6
Days payable	56.5	64.5	63.9	63.9	63.9
Cash cycle	41.4	43.9	41.9	41.9	41.9

Source: Company data; KGI Research estimates

**Profit & loss**

NT\$m	Dec-23A	Dec-24A	Dec-25A	Dec-26F	Dec-27F
<b>Revenue</b>	<b>6,162,221</b>	<b>6,859,615</b>	<b>8,103,105</b>	<b>10,718,586</b>	<b>13,241,654</b>
Cost of goods sold	(5,774,274)	(6,430,670)	(7,604,944)	(10,081,320)	(12,492,264)
<b>Gross profit</b>	<b>387,947</b>	<b>428,946</b>	<b>498,161</b>	<b>637,266</b>	<b>749,390</b>
Operating expenses	(221,419)	(228,339)	(238,938)	(268,014)	(312,148)
<b>Operating profit</b>	<b>166,528</b>	<b>200,607</b>	<b>259,223</b>	<b>369,252</b>	<b>437,242</b>
<b>Non-operating income</b>	<b>114,525</b>	<b>69,767</b>	<b>78,744</b>	<b>57,753</b>	<b>54,666</b>
Interest income	81,700	45,577	31,010	29,753	27,666
Investment income	5,222	6,506	17,676	8,000	8,000
Other non-op income	27,603	17,684	30,059	20,000	19,000
<b>Non-operating expenses</b>	<b>(88,829)</b>	<b>(58,499)</b>	<b>(44,523)</b>	<b>(51,565)</b>	<b>(48,403)</b>
Interest expense	(65,543)	(36,795)	(38,096)	(45,565)	(42,903)
Investment loss	(18,952)	(12,183)	-	(2,000)	(2,000)
Other non-op expenses	(4,334)	(9,521)	(6,426)	(4,000)	(3,500)
<b>Pre-tax profit</b>	<b>192,224</b>	<b>211,875</b>	<b>293,445</b>	<b>375,440</b>	<b>443,505</b>
Current taxation	(37,435)	(40,196)	(78,410)	(93,860)	(110,876)
Minorities	(12,691)	(18,974)	(25,681)	(31,000)	(33,000)
Extraordinary items	-	0	(0)	-	-
<b>Net profit</b>	<b>142,098</b>	<b>152,705</b>	<b>189,354</b>	<b>250,580</b>	<b>299,628</b>
<b>EBITDA</b>	<b>250,934</b>	<b>288,489</b>	<b>356,976</b>	<b>477,414</b>	<b>568,118</b>
EPS (NT\$)	10.25	11.01	13.61	17.94	21.46

**Cash flow**

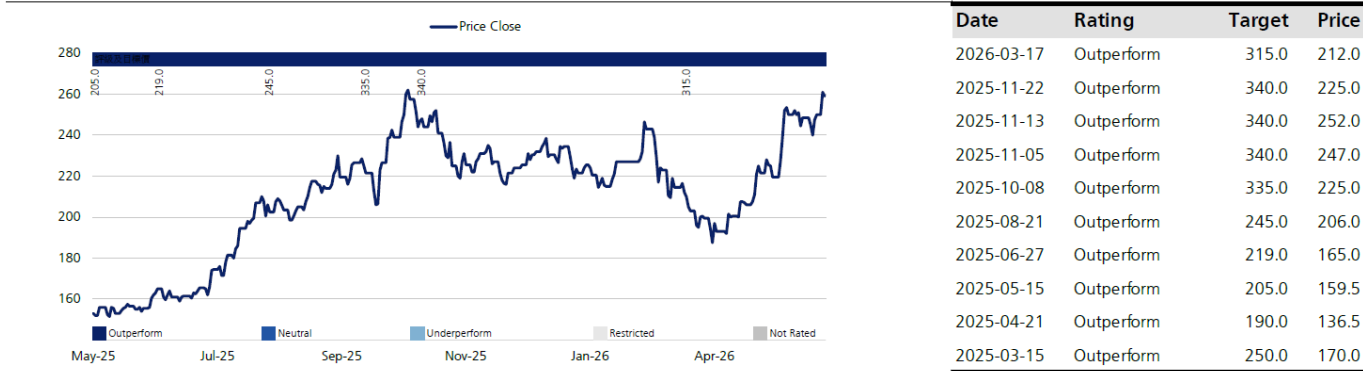
NT\$m	Dec-23A	Dec-24A	Dec-25A	Dec-26F	Dec-27F
<b>Operations cash flow</b>	<b>445,553</b>	<b>166,029</b>	<b>226,852</b>	<b>48,410</b>	<b>131,612</b>
Net profit	142,098	152,705	189,354	250,580	299,628
Depreciation & amortisation	84,406	87,882	97,753	108,162	130,876
Decrease in working capital	247,995	(105,479)	(105,743)	(304,332)	(292,893)
Other operating cash flow	(28,946)	30,921	45,489	(6,000)	(6,000)
<b>Investing cash flow</b>	<b>(137,874)</b>	<b>(300,046)</b>	<b>(304,689)</b>	<b>(227,768)</b>	<b>(198,964)</b>
Sale of ST investment	(132,622)	(215,737)	(196,423)	-	-
New investments	23,845	(3,713)	7,394	1,840	4,617
Capital expenditure	(111,745)	(136,339)	(173,763)	(225,892)	(200,000)
Others investing cashflow	82,647	55,743	58,103	(3,716)	(3,581)
<b>Free cash flow</b>	<b>349,020</b>	<b>5,021</b>	<b>4,648</b>	<b>(148,839)</b>	<b>(37,666)</b>
<b>Financing cash flow</b>	<b>(160,638)</b>	<b>(164,072)</b>	<b>169,947</b>	<b>(111,537)</b>	<b>(138,735)</b>
Increase in short term debt	(74,237)	(25,783)	295,646	(40,000)	(40,000)
Increase in long term loans	27,361	(8,480)	5,270	(1,605)	1,832
New ordinary shares issued	4,805	-	-	-	-
Ordinary dividends paid	(80,722)	(83,134)	(106,731)	(100,932)	(133,567)
Other financing cashflow	(37,845)	(46,675)	(24,238)	31,000	33,000
<b>Forex effects</b>	<b>(11,704)</b>	<b>37,534</b>	<b>(12,778)</b>		
<b>Total cash generated</b>	<b>135,336</b>	<b>(260,555)</b>	<b>79,332</b>	<b>(290,895)</b>	<b>(206,087)</b>

**ROIC**

	Dec-23A	Dec-24A	Dec-25A	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	3.6%	3.3%	2.9%	2.5%	2.4%
<b>= Operating margin</b>	<b>2.7%</b>	<b>2.9%</b>	<b>3.2%</b>	<b>3.4%</b>	<b>3.3%</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	0.1
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
<b>= Capital turnover</b>	<b>7.4</b>	<b>6.7</b>	<b>7.0</b>	<b>6.9</b>	<b>7.0</b>
Operating margin	2.7%	2.9%	3.2%	3.4%	3.3%
x Capital turnover	7.4	6.7	7.0	6.9	7.0
x (1 - tax rate)	80.5%	81.0%	73.3%	75.0%	75.0%
<b>= After-tax ROIC</b>	<b>16.1%</b>	<b>16.0%</b>	<b>16.4%</b>	<b>17.8%</b>	<b>17.3%</b>

Source: Company data; KGI Research estimates

Hon Hai Precision – Recommendation & target price history



Source: TEJ; KGI Research

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