

Hon Hai (2317.TW/2317 TT)

2024F growth boosted by cloud computing sales

FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of November 7 (NT\$)	96.10
12M target price (NT\$)	126.0
Previous target price (NT\$)	140.0
Revised down (%)	10.0
Upside (%)	31.1

Key message

Hon Hai will report 3Q23 earnings, and share its 4Q23-2024F business outlook, on November 14. We expect its 2024F sales outlook to be mildly positive, with limited YoY growth. Cloud sales will be the key catalyst for growth on a low 2023F base. We lower our target price from NT\$140 to NT\$126 (15x 2024F EPS of NT\$3, on cloud & component sales, and 11x NT\$7.4, on other segments). Maintain Outperform on a low valuation with a good cash yield and decent 2024F earnings growth.

Trading data

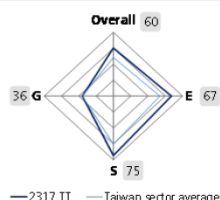
Mkt cap (NT\$/bn/US\$mn)	1,332 / 41,491
Outstanding shares (mn)	13,863
Foreign ownership (mn)	5,307
3M avg. daily trading (mn)	24.14
52-week trading range (NT\$)	94.50 – 115.5

Performance	3M	6M	12M
Absolute (%)	-12.2	-8.5	-3.9
Relative (%)	-10.4	-15.3	-30.1

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	2.12A	2.40A	2.80A	2.88A
2023	0.93A	2.38A	2.37F	2.88F
2024	2.43F	2.25F	2.34F	3.36F

ESG score card



Source: Refinitiv

Event

Hon Hai will report 3Q23 earnings and share its 4Q23-2024F business outlook on November 14. We expect its 2024F sales outlook to be mildly positive, with limited YoY growth. Cloud sales will be the key catalyst for growth on a low 2023F comparison base.

Impact

2H23F sales to decline YoY; gross margin supported by weak NT dollar. Management guides 3Q23 sales growth of 18% QoQ, but down 12% YoY, in line with our expectation. October sales grew 12% MoM, with a narrowed decline of 5% YoY. However, we now expect 4Q23F sales to grow by 13% QoQ, slightly weaker than our previous estimate and consensus. Among business units, smart consumer electronics (primarily iPhone) should be the major driver, due to positive seasonality for new model sales. We expect component sales will grow, cloud sales will be flat, and NB sales will decline, QoQ. Due to an unfavorable product mix, gross margin will trend down in 2H23F, from a 2Q23 peak, but the NT dollar weakening against the US dollar will somewhat soften this impact. We thus forecast 2H23F gross margin at 5.8-6%, and 2023F gross margin to be flat YoY, at 6%. Overall 2023F EPS is adjusted to NT\$8.55, down 16% YoY. We attribute earnings upside in 2H23F to forex gains.

Cloud to drive 2024F growth. Hon Hai had a cloud sales weighting of 24% in 1H23, which will be lower in 2H23F. We expect cloud sales will comprise 22% of total sales in 2024F (sales up YoY), up from 21% in 2023F (sales down YoY). We base this expectation on a resumption of general purpose server demand from enterprise and content service providers (CSP) alongside strong growth in AI server sales. Cloud server sales will come from GPU module, baseboard, L6 server motherboard, and L10/ 11 server rack for AI server. We think AI will comprise 20-25% of server sales in 2023F, and more than 30% in 2024F. An increased sales weighting of cloud server components will positively impact 2024F gross margin. However, demand for other consumer products, like iPhone, tablet, and NB, will still be lukewarm in 1H24F. Components and EV sales will grow YoY in 2024F, but contribution will be lower. We thus lower our sales growth forecast to 4% YoY in 2024F, with an expectation of improved gross margin. 2024F EPS is adjusted to NT\$10.4 (up 22% YoY).

Valuation & Action

We lower our target price from NT\$140 to NT\$126 (15x 2024F EPS of NT\$3 from cloud & component sales, and 11x NT\$7.4 from other segments). Maintain Outperform on a low valuation with a good cash yield 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\$mn)	5,994,174	6,626,997	6,046,619	6,311,395	6,898,071
Gross profit (NT\$mn)	362,127	400,085	365,216	388,592	441,477
Operating profit (NT\$mn)	148,959	173,788	151,896	171,499	213,840
Net profit (NT\$mn)	139,320	141,483	118,559	144,123	179,167
EPS (NT\$)	10.05	10.21	8.55	10.40	12.92
Cash DPS (NT\$)	5.20	5.30	4.44	5.40	6.71
EPS growth (%)	36.9	1.6	(16.2)	21.6	24.3
PE (x)	9.6	9.4	11.2	9.2	7.4
PB (x)	1.0	0.9	0.9	0.8	0.8
EV/EBITDA (x)	4.1	4.0	2.5	1.9	1.4
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	5.4	5.5	4.6	5.6	7.0
Return on average equity (%)	10.4	10.0	8.0	9.3	11.1

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 3Q23 & 4Q23 forecasts vs. consensus

NT\$mn	3Q23							4Q23F						
	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	1,542,814	1,518,876	1.6	18.3	(11.7)	1,549,165	(0.4)	1,736,820	1,797,311	(3.4)	12.6	(11.5)	1,889,915	(8.1)
Gross profits	92,569	91,133	1.6	10.8	(14.0)	95,645	(3.2)	100,736	104,244	(3.4)	8.8	(9.3)	115,096	(12.5)
Operating income	37,028	36,453	1.6	19.7	(23.7)	39,492	(6.2)	43,421	44,933	(3.4)	17.3	(1.8)	49,980	(13.1)
Pretax income	44,804	41,472	8.0	(6.1)	(12.5)	46,284	(3.2)	49,036	50,578	(3.0)	9.4	(6.5)	57,092	(14.1)
Net income	32,818	30,153	8.8	(0.6)	(15.3)	34,008	(3.5)	39,916	41,149	(3.0)	21.6	(0.2)	42,251	(5.5)
EPS (NT\$)	2.37	2.18	8.8	(0.6)	(15.3)	2.45	(3.5)	2.88	2.97	(3.0)	21.6	(0.2)	3.05	(5.5)
Gross margin (%)	6.0	6.0	0.0 ppts	(0.4)ppts	(0.2)ppts	6.2	(0.2)ppts	5.8	5.8	0.0 ppts	(0.2)ppts	0.1 ppts	6.1	(0.3)ppts
OP margin (%)	2.4	2.4	0.0 ppts	0.0 ppts	(0.4)ppts	2.5	(0.1)ppts	2.5	2.5	0.0 ppts	0.1 ppts	0.2 ppts	2.6	(0.1)ppts
Net margin (%)	2.1	2.0	0.1 ppts	(0.4)ppts	(0.1)ppts	2.2	(0.1)ppts	2.3	2.3	0.0 ppts	0.2 ppts	0.3 ppts	2.2	0.1 ppts

Source: Company data, Bloomberg, KGI Research

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

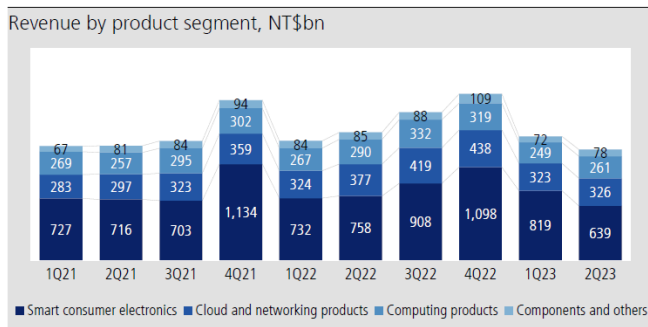
NT\$mn	2023F					2024F					2025F							
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	6,046,619	6,083,172	(0.6)	(8.8)	6,208,391	(2.6)	6,311,395	6,598,644	(4.4)	4.4	6,641,678	(5.0)	6,898,071	7,280,559	(5.3)	9.3	7,036,152	(2.0)
Gross profit	365,216	367,288	(0.6)	(8.7)	382,623	(4.5)	388,592	406,368	(4.4)	6.4	417,894	(7.0)	441,477	465,956	(5.3)	13.6	470,085	(6.1)
Operating income	151,896	152,834	(0.6)	(12.6)	160,329	(5.3)	171,499	179,622	(4.5)	12.9	182,628	(6.1)	213,840	225,697	(5.3)	24.7	216,459	(1.2)
Pretax income	161,948	160,159	1.1	(13.6)	171,127	(5.4)	198,387	205,188	(3.3)	22.5	207,119	(4.2)	242,635	252,191	(3.8)	22.3	246,440	(1.5)
Net income	118,559	117,127	1.2	(16.2)	122,736	(3.4)	144,123	149,509	(3.6)	21.6	151,254	(4.7)	179,167	186,736	(4.1)	24.3	180,747	(0.9)
EPS (NT\$)	8.55	8.45	1.2	(16.2)	8.85	(3.4)	10.40	10.78	(3.6)	21.6	10.91	(4.7)	12.92	13.47	(4.1)	24.3	13.04	(0.9)
Gross margin (%)	6.0	6.0	0.0 ppts	0.0 ppts	6.2	(0.1)ppts	6.2	6.2	(0.0)ppts	0.1 ppts	6.3	(0.1)ppts	6.4	6.4	(0.0)ppts	0.2 ppts	6.7	(0.3)ppts
OP margin (%)	2.5	2.5	(0.0)ppts	(0.1)ppts	2.6	(0.1)ppts	2.7	2.7	(0.0)ppts	0.2 ppts	2.7	(0.0)ppts	3.1	3.1	(0.0)ppts	0.4 ppts	3.1	0.0 ppts
Net margin (%)	2.0	1.9	0.0 ppts	(0.2)ppts	2.0	(0.0)ppts	2.3	2.3	0.0 ppts	0.3 ppts	2.3	0.0 ppts	2.6	2.6	0.0 ppts	0.3 ppts	2.6	0.0 ppts

Source: Company data, Bloomberg, KGI Research estimates

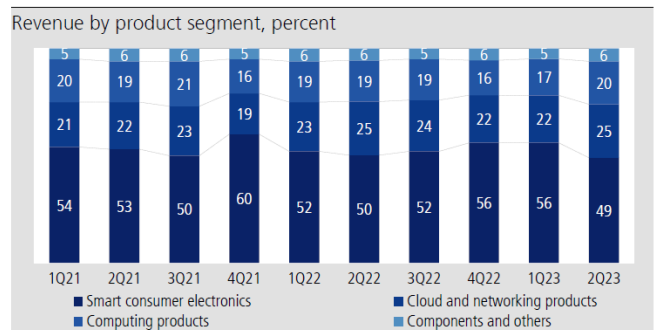
Figure 3: Product mix

Sales (NT\$b)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23F	4Q23F	2020	2021	2022	2023F	2024F
Smart consumer electronics	727	715	703	1,135	732	758	908	1,098	819	639	847	1,059	2,593	3,280	3,496	3,364	3,451
Cloud & networking	283	296	323	364	324	377	419	438	323	326	316	315	1,316	1,267	1,557	1,280	1,369
Computing	263	259	295	296	267	290	332	319	249	261	292	275	1,136	1,114	1,208	1,076	1,124
Components & others	74	81	84	94	84	85	87	109	72	78	88	88	313	334	365	326	367
Total	1,347	1,351	1,406	1,890	1,408	1,510	1,747	1,963	1,462	1,305	1,543	1,737	5,358	5,994	6,627	6,047	6,311
Weighting (%)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23F	4Q23F	2020	2021	2022	2023F	2024F
Smart consumer electronics	54	53	50	60	52	50	52	56	56	49	55	61	48	55	53	56	55
Cloud & networking	21	22	23	19	23	25	24	22	22	25	20	18	25	21	24	21	22
Computing	20	19	21	16	19	19	19	16	17	20	19	16	21	19	18	18	18
Components & others	5	6	6	5	6	6	5	6	5	6	6	5	6	6	6	5	6
Total	100	100	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	3Q23F	4Q23F	2020	2021	2022	2023F	2024F
Smart consumer electronics	86	76	33	(10)	1	6	29	(3)	12	(16)	(7)	(4)	(2)	27	7	(4)	3
Cloud & networking	11	(13)	(11)	1	14	27	29	20	(0)	(14)	(24)	(28)	5	(4)	23	(18)	7
Computing	19	(15)	(5)	(2)	2	12	13	8	(7)	(10)	(12)	(14)	2	(2)	8	(11)	4
Components & others	17	3	(7)	18	14	4	4	15	(15)	(7)	1	(19)	(3)	7	9	(11)	13
Total	45	20	9	(6)	4	12	24	4	4	(14)	(12)	(12)	0	12	11	(9)	4
QoQ (%)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23F	4Q23F	2020	2021	2022	2023F	2024F
Smart consumer electronics	(43)	(2)	(2)	61	(36)	4	20	21	(25)	(22)	32	25					
Cloud & networking	(22)	5	9	13	(11)	17	11	5	(26)	1	(3)	(0)					
Computing	(13)	(1)	14	0	(10)	8	15	(4)	(22)	5	12	(6)					
Components & others	(8)	10	4	12	(11)	0	3	25	(34)	9	12	0					
Total	(33)	0	4	34	(26)	7	16	12	(26)	(11)	18	13					

Source: Company data, KGI Research estimates

Figure 4: Revenue mix by product


Source: Company data, KGI Research

Figure 5: Revenue mix by product


Source: Company data, KGI Research

Figure 6: 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	(17.6)	41.4	8.2	8.9	8.8	6.1	6.1	6.6	56.6	(16.9)	51.1	81.07	65.65	99.16	63.9	(19.0)	51.0
3231 TT	Wistron	14.2	(11.8)	15.1	7.1	7.6	8.3	2.8	2.8	3.9	67.8	(13.1)	63.8	4.01	3.50	6.63	6.6	(12.7)	89.3
2317 TT	Hon Hai	10.6	(8.8)	4.4	6.0	6.0	6.2	2.6	2.5	2.7	16.7	(12.6)	12.9	10.21	8.55	10.40	1.6	(16.2)	21.6
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 & ODM/ OEMs

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	41,073	96.10	Outperform	126.0	8.55	10.40	(16.2)	21.6	11.2	9.2	0.9	0.8	8.0	9.3	5.5	4.6
Quanta	2382 TT	24,293	204.00	Outperform	310.0	8.75	11.15	16.5	27.3	23.3	18.3	4.5	4.3	19.6	23.8	2.9	3.4
Pegatron	4938 TT	6,408	78.00	Neutral	81.0	5.58	6.79	(1.5)	21.6	14.0	11.5	1.1	1.1	8.0	9.5	5.1	4.6
Inventec	2356 TT	4,645	42.00	Neutral	62.0	1.52	2.41	(11.1)	58.6	27.6	17.4	2.5	2.4	9.1	14.1	3.6	2.9
Compal*	2324 TT	3,995	29.40	Not rated	N.A.	1.81	2.32	0.6	28.3	16.3	12.7	1.1	1.1	6.9	8.4	6.8	4.3
Wistron	3231 TT	8,350	93.40	Outperform	140.0	3.50	6.63	(12.7)	89.3	26.7	14.1	2.6	2.3	9.7	16.6	2.8	2.6
Asustek	2357 TT	8,095	353.50	Outperform	435.0	15.51	28.97	(21.6)	86.8	22.8	12.2	1.2	1.2	5.4	9.7	4.2	3.1
Acer*	2353 TT	3,246	34.55	Not rated	N.A.	1.58	1.94	130.0	22.8	21.9	17.8	1.5	1.5	6.9	8.3	4.3	3.9
Lenovo*	992 HK	14,841	9.57	Not rated	N.A.	0.10	0.14	(30.4)	41.7	99.7	70.4	18.0	15.1	19.5	22.9	3.2	3.4
Apple	AAPL US	2,787,520	179.23	Outperform	200.0	6.00	6.57	(1.7)	9.5	29.9	27.3	46.0	34.8	169.4	152.0	2.0	2.1
HP*	HPQ US	27,009	27.33	Not rated	N.A.	3.30	3.46	(17.2)	4.8	8.3	7.9	(8.0)	(12.1)	(138.9)	(201.4)	3.7	3.8

*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	41,073	96.10	Outperform	126.0	8.55	10.40	(16.2)	21.6	11.2	9.2	0.9	0.8	8.0	9.3	5.5	4.6
Delta	2308 TT	24,505	306.00	Neutral	325.0	13.26	15.47	5.4	16.7	23.1	19.8	4.3	3.9	18.5	20.6	3.2	2.5
Sinbon	3023 TT	2,138	289.50	Neutral	346.0	14.11	15.72	15.5	11.4	20.5	18.4	4.9	4.5	25.3	25.5	2.9	3.4
Bizlink	3665 TT	1,294	257.00	Outperform	355.0	17.37	27.23	(30.6)	56.7	14.8	9.4	1.8	1.6	12.1	17.7	3.1	3.3
Global PMX	4551 TT	440	124.00	Neutral	129.0	5.33	9.24	(56.3)	73.1	23.2	13.4	1.7	1.6	7.4	12.2	4.8	2.4
Cub Electparts	2231 TT	587	135.00	Neutral	172.0	6.16	7.83	31.3	27.0	21.9	17.2	4.4	4.1	20.1	24.8	1.7	4.4
Hu Lane	6279 TT	467	152.00	Outperform	175.0	8.42	11.34	(16.1)	34.6	18.0	13.4	2.6	2.4	14.7	18.5	3.7	3.3
Tung Hsih Electronic	3552 TT	371	140.50	Underperform	120.0	0.45	6.70	(93.8)	1392.2	312.7	21.0	2.8	2.6	0.9	12.7	2.5	0.0
Tong Hsing Electronic*	6271 TT	957	148.50	Not rated	N.A.	4.87	7.65	(64.5)	56.9	30.5	19.4	1.3	1.1	4.0	6.5	6.1	3.0
K. S. Terminals*	3003 TT	331	68.90	Not rated	N.A.	3.66	4.01	(38.0)	9.6	18.9	17.2	1.8	1.7	N.M.	N.M.	2.9	3.3
Alltop Tech	3526 TT	331	182.00	Outperform	215.0	11.32	12.91	20.2	14.1	16.1	14.1	4.1	3.9	25.9	28.1	5.2	5.1
CATL*	300750 CH	114,931	191.24	Not rated	N.A.	10.00	12.52	39.1	25.3	19.1	15.3	4.1	3.3	22.7	23.3	0.2	0.9
Zhejiang Sanhua*	002050 CH	14,391	28.21	Not rated	N.A.	0.85	1.07	27.7	25.7	33.1	26.4	7.8	6.6	20.6	21.7	0.8	0.8
Gotion High-Tech*	002074 CH	5,733	23.58	Not rated	N.A.	0.54	0.90	212.8	65.2	43.4	26.3	2.1	1.7	4.2	6.4	0.3	0.1
Tesla	TSLA US	770,170	254.85	Outperform	309.0	3.15	4.00	(22.6)	27.0	80.9	63.7	14.2	11.4	16.2	18.0	0.0	0.0
Peer Average										45.8	20.3	3.9	3.4	14.3	17.5	2.9	2.5

*Bloomberg consensus

Source: Bloomberg, KGI Research estimates

Figure 9: Hon Hai has announced partnerships with traditional & emerging automakers

Company	Announcement	JV ownership	Details
 FIAT CHRYSLER AUTOMOBILES	Jan-20	50% Hon Hai 50% Fiat Chrysler	1) Initially focusing on Chinese EV market. 2) PSA and FCA merged as Stellantis in January 2021.
		May-21	50% FIH Mobile 50% Stellantis
	Feb-20	51% Hon Hai 49% Yulong	1) Hon Hai and Yulong established a JV, Foxtron, in 2020. 2) Expects Foxtron to launch first EV model in 2-3 years.
	Jan-21	50% Hon Hai 50% Geely	JV may provide assembly service for Faraday Future.
	Feb-21	N.A.	1) Hon Hai will work with Fisker in Project PEAR, targeting mass production of another EV model in 4Q23. 2) Hon Hai announced in May 2021 it would establish an EV production site in the US with Fisker. 3) PEAR project for Fisker will be produced at Lordstown's plant in Ohio.
	May-21	60% PTT Group 40% Hon Hai	1) Signed Memorandum of Understanding (MoU) and founded JV to provide EV production platform in Thailand with investment of US\$1-2bn. 2) Targets mass production with annual EV capacity of 50k in 2023-2024. 3) Planned annual EV capacity is 150k.
	Jun-21	N.A.	Signed MoU to work on EV battery exchange.
	Jul-21	N.A.	1) Foxtron signed MoU to work on EV bus. 2) Expects to operate in southern Taiwan in 2022.
	Sep-21	N.A.	1) Hon Hai reached an agreement with Lordstown to cooperate in electric pickup truck production. 2) Hon Hai will purchase Lordstown's Ohio plant and equipment for US\$230mn. 3) Targets mass production of Endurance full-size pickup and revenue contribution in 2H22. 4) Both will pursue JV to co-design and develop vehicles for commercial fleet with MIH platform, and both have the right to commercialize new EV programs in US and internationally. 5) Hon Hai will purchase Lordstown's shares for US\$67.85mn. 6) Maximum annual capacity of 500-600k.
	Feb-22	8.2% Hon Hai	1) Hon Hai will invest SAR562.5mn to acquire 8.2% of JV. 2) Targets sedan and SUV. 3) Will cooperate in EEA, software, and cloud.
	May-22	55% Hon Hai	1) Hon Hai completed OEM manufacturing agreement, signed JV development agreement, and formally acquired Lordstown factory. 2) Hon Hai will invest US\$55mn in the JV and hold 55% of shares. 3) Lordstown Motors will become Hon Hai's first mass-production commercial vehicle customer and start to produce electric pickups in Ohio in 2H22.
	Aug-22	N.A.	1) Hon Hai signed contract manufacturing agreement (CMA) with Monarch Tractor to build next-generation agricultural equipment and battery packs at Foxconn Ohio facility. 2) Foxconn's first CMA following closing of Asset Purchase Agreement (APA). 3) Scheduled to begin full-rate production of Monarch Tractor's MK-V Series in 1Q23 at Foxconn Ohio (~6.2mn square feet).
	Sep-22		1) Hon Hai announced to establish a JV, PT Foxconn Indika Motor (FIM), with PT Mitra Motor Group (MMG), a subsidiary of Indika Energy, through its affiliate Foxteq Singapore Pte. Ltd.. 2) The establishment of FIM is a continuation of the MoU signed in Jan. 2022 by Indika, Foxconn, and others. 3) FIM will conduct manufacturing business for commercial electric vehicles and electric batteries, as well as providing management consultation service.
	Oct-22		1) Hon Hai announced the signing of MOU with INDIEV to manufacture the first INDI One prototype vehicles at Foxconn Ohio. 2) This MOU is the newest EV manufacturing opportunity confirmed for Foxconn after completing the Asset Purchase Agreement ("APA"). 3) Potential collaboration will be disclosed at a later date as both sides remain in negotiation.
	Nov-22		1) Public Investment Fund (PIF) announced the launch of Ceer, a joint venture between PIF and Foxconn. 2) Ceer is the first EV brand in Saudi Arabia and will license component technology from BMW. 3) Ceer will attract over US\$150mn of foreign direct investment, projected to directly contribute US\$8 bn to Saudi Arabia's GDP by 2034.
	Nov-22		1) Hon Hai announced to invest US\$170mn in Lordstown through its subsidiary Foxconn Ventures Pte. Ltd. 2) After the completion of the transaction, Hon Hai will hold all of Lordstown's outstanding preferred stock and 18.3% of its common stock. 3) Hon Hai will become the biggest shareholder of Lordstown and have the right to designate two board members after this deal.

Source: Company data, KGI Research

Figure 10: Hon Hai has announced partnerships with key EV component manufacturers

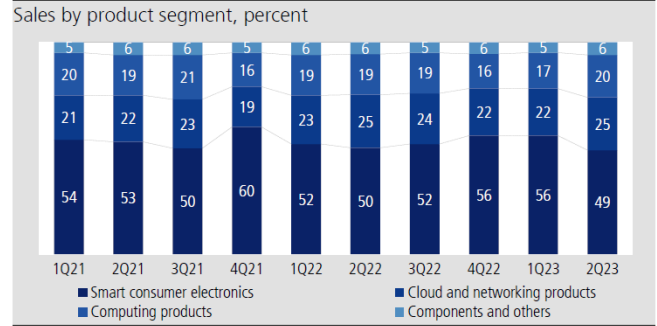
Company	Announcement	JV ownership	Product	Details
	May-21	N.A.	Small IC (power and analog)	1) JV Xsemi will focus on ASP < US\$2 small IC (power and analog). 2) Xsemi will be headquartered in Hsinchu, mainly for small IC sales and channel development.
	Jun-21	N.A.	Battery material	1) Hon Hai invested NT\$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\$15mn to acquire 9.09-9.68% in the first stage, and could increase investment to maximum of US\$100mn if needed.
	Apr-22	N.A.	Green Power	1) Hon Hai signed MoU with Shinfco Energy's subsidiary, Fu Wei Power, for green power procurement. 2) Hon Hai purchased 2.36 million units of green power this year and expects to purchase 70 million units by 2030.
	Apr-22	100%	RF semiconductor	1) Hon Hai completed acquisition of arQana's wireless department, which will merge with AchernaTek Inc. to form new company iCana. 2) Becoming global RF semiconductor component supplier to strengthen product development for 5G Sub-6 and millimeter wave. 3) Expanding internet vehicles and electric vehicles market.
	May-22	Hon Hai 5.03%	Semiconductor	1) Hon Hai subsidiary, Big Innovation Holdings Limited (BIH), signed MoU with DNeX Group. 2) Constructing 12-inch wafer fab in Malaysia with monthly capacity of 40K wafers, mainly in 28 and 40 nanometers. 3) Targets production of power components, radio frequency components, and CMOS image sensor products.
	May-22	49% Yageo 51% Hon Hai	Semiconductor	1) Hon Hai participated in NT\$3.1 billion capital increase of XSEMI and will hold 51% of XSEMI. 2) JV will mainly serve system and channel customers. 3) XSEMI participated in NT\$2.8 billion private placement with Fudin; XSEMI will be the largest shareholder at 30.08%. Targets complete line of medium and high-voltage Si MOSFETs to supply EV and industrial semiconductor products.
	Jul-22	10% Hon Hai	Semiconductor material	1) Hon Hai invested NT\$500 million to acquire 10% of shares. 2) Cooperation will help Hon Hai subsidiary Hon Young Semiconductor to obtain SiC substrate and strengthen vertical integration of supply chain for electric vehicles and semiconductors.
	Jul-22			1) Hon Hai signed MoU with NXP to jointly develop platforms for new generation of smart connected vehicles. 2) Hon Hai will integrate NXP's S32 Family of processors into its EV platform. 3) Hon Hai and NXP outlined more than 10 automotive products for first stage.
	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 186mn euros. 2) PRETTL SWH Group is a German firm assisting customers in the development and manufacture of high-end automotive sensor wiring harnesses and connectors and automotive power solutions. 3) This acquisition is estimated to bring FIT an annual revenue contribution of about 350-400mn euros in the short term and is expected to improve FIT's overall gross margin on better product mix in the future.
	May-23		Semiconductor	1) Infineon and Hon Hai sign MoU to partner on SiC collaboration in EV development. 2) The MoU addresses their collaboration on the implementation of SiC technology in automotive high-power applications including traction inverters, onboard chargers, and DC-DC converters. 3) A system application center in Taiwan is expected to be established in 2023 to further expand the scope of their cooperation.
	Jun-23	50% Hon Hai 50% Stellantis	Semiconductor	1) Stellantis and Hon Hai announced to create SiliconAuto, a JV to design and sell automotive semiconductors. 2) SiliconAuto's products will start to tailor chips for Hon Hai, Stellantis and other customers in 2026.
	Jul-23		Digital Cockpit, Battery Management System (BMS)	1) Hon Hai and Analog Devices signed a MoU to jointly develop the next-generation digital car cockpit and BMS. 2) The two firms aims to create a smarter mobility ecosystem by advancing software-defined vehicles.
	Jul-23	50% Hon Hai 50% ZF Group	Chassis	1) Foxconn acquires 50% stake in ZF Chassis Modules GmbH, a unit of ZF Group with an enterprise value of €1bn. 2) The partnership focuses on the development of passenger car chassis system. 3) This strategic partnership will leverage capabilities of the two parties and expand the range of product offerings in ICE/EV space, and seeks to enlarge customer base for the both.
	Sep-23	N.A.	Solid-state battery ecosystem for the electric two-wheeler market.	1) Blue Solutions has signed a memorandum of understanding (M.O.U.) with Foxconn, the agreement is to jointly develop a solid-state battery ecosystem for electric two-wheeler market. 2) This collaboration will initially target at the Indonesian market. 3) According to McKinsey's estimates, the global two-wheeled vehicle market will be worth about \$218 billion in 2029, with a CAGR of 8.7%.

Source: Company data, KGI Research

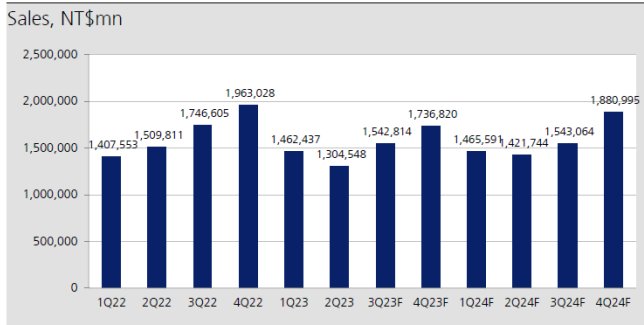
Figure 11: Company profile

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.

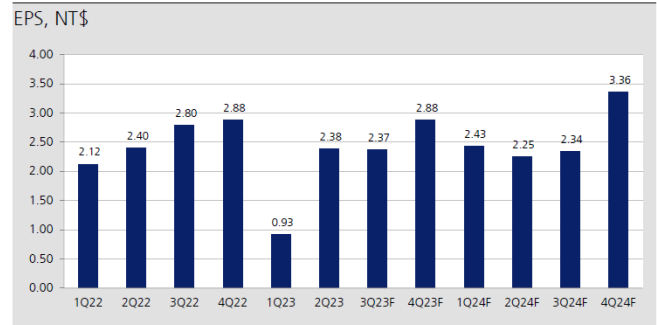
Source: Company data, KGI Research

Figure 12: Sales by segment


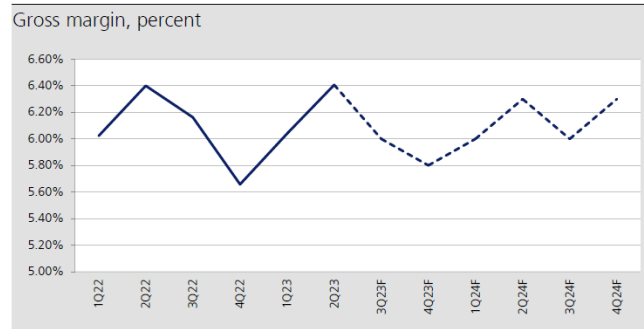
Source: Company data, KGI Research

Figure 13: Sales


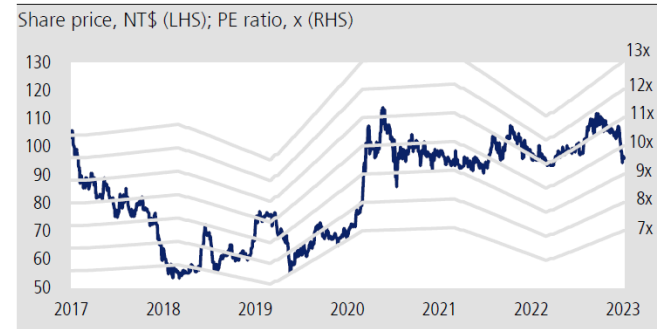
Source: KGI Research

Figure 14: EPS


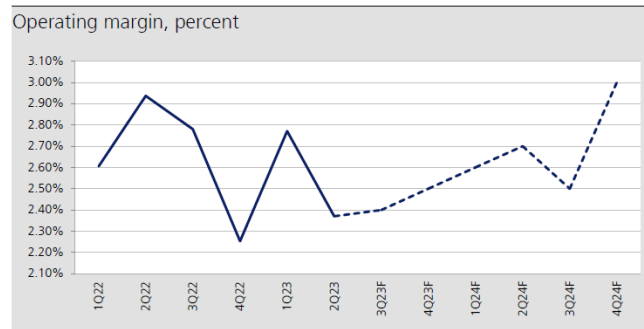
Source: KGI Research

Figure 15: Gross Margin


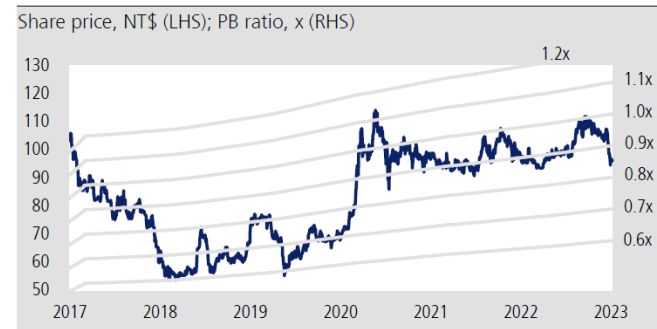
Source: KGI Research

Figure 16: 12M forward PE band


Source: TEJ; KGI Research estimates

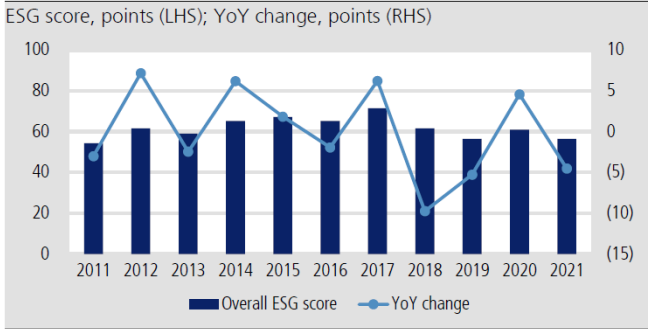
Figure 17: Operating Margin


Source: KGI Research

Figure 18: 12M forward PB band


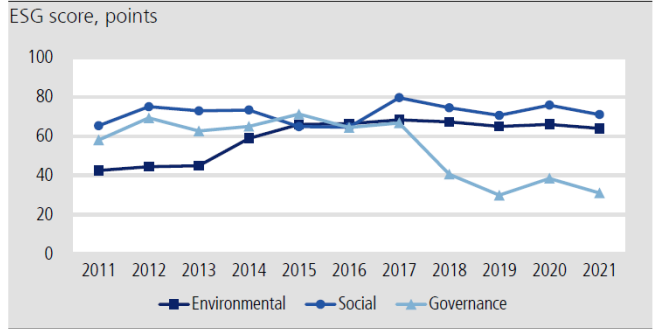
Source: TEJ; KGI Research estimates

Figure 19: Overall ESG score



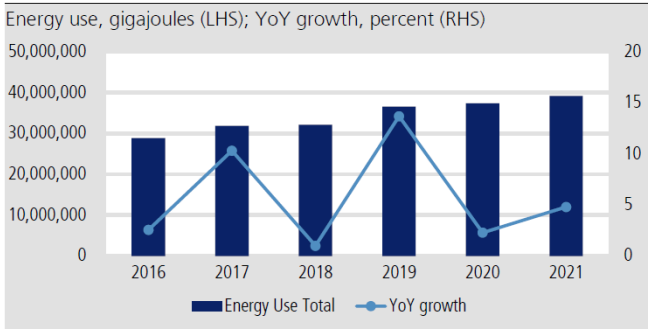
Source: Refinitiv, Company data

Figure 20: ESG scores



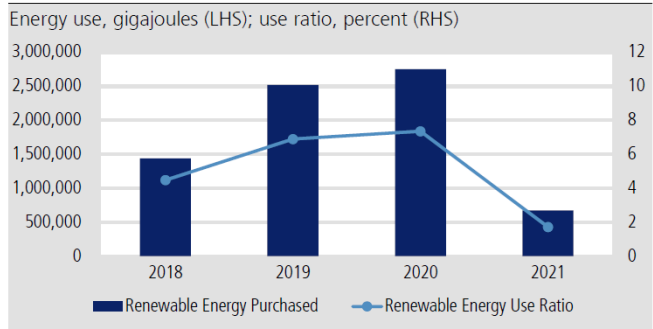
Source: Refinitiv, Company data

Figure 21: Energy use



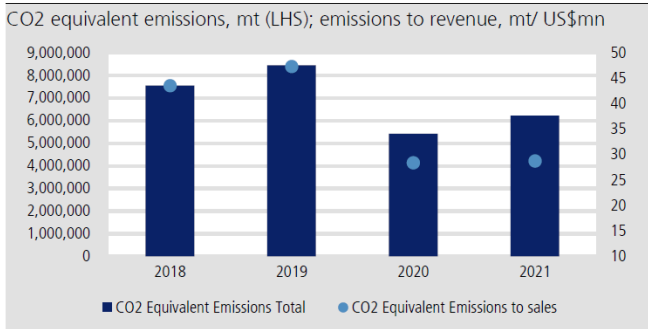
Source: Refinitiv, Company data

Figure 22: Renewable energy



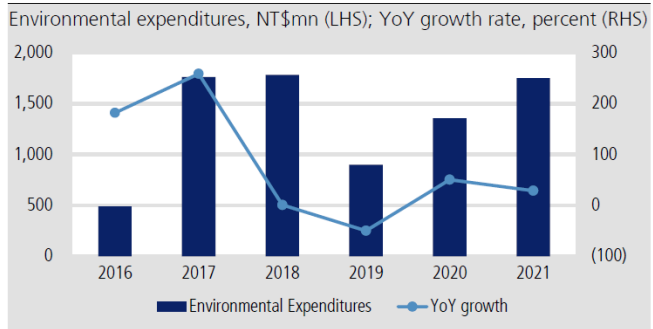
Source: Refinitiv, Company data

Figure 23: CO2 equivalent emissions



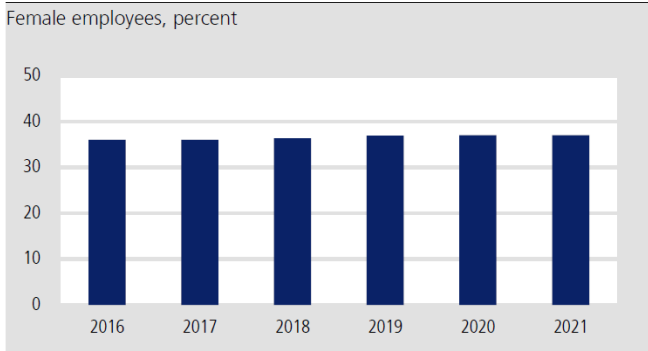
Source: Refinitiv, Company data

Figure 24: Environmental expenditures



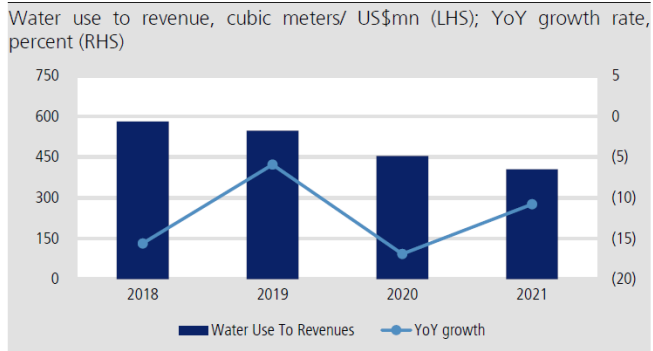
Source: Refinitiv, Company data

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	Total direct and indirect energy consumption in gigajoules. - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use'	
Renewable energy purchased	Total primary renewable energy purchased in gigajoules. - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	Direct CO2 and CO2 equivalent emissions in metric tons. - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)	
CO2 equivalent emissions to sales	Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn) - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)	
Waste total	Total amount of waste produced in metric tons. - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered	
Waste recycling ratio	The waste recycling ratio as reported by the company. - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste	
Water withdrawal total	Total water withdrawal in cubic meters. - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered	
Environmental expenditures	Total amount of environmental expenditures. - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures	
Turnover of employees	Percentage of employee turnover. - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving	
Women managers	Percentage of women managers. - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100	
Women employees	Percentage of women employees. - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100	
Training hours total	Total training hours performed by all employees. - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23F	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
Income statement (NT\$mn)											
Revenue	1,462,437	1,304,548	1,542,814	1,736,820	1,465,591	1,421,744	1,543,064	1,880,995	6,046,619	6,311,395	6,898,071
Cost of goods sold	(1,374,103)	(1,220,971)	(1,450,245)	(1,636,085)	(1,377,655)	(1,332,174)	(1,450,480)	(1,762,493)	(5,681,403)	(5,922,803)	(6,456,594)
Gross profit	88,334	83,577	92,569	100,736	87,935	89,570	92,584	118,503	365,216	388,592	441,477
Operating expenses	(47,811)	(52,652)	(55,541)	(57,315)	(49,830)	(51,183)	(54,007)	(62,073)	(213,320)	(217,093)	(227,636)
Operating profit	40,523	30,925	37,028	43,421	38,105	38,387	38,577	56,430	151,896	171,499	213,840
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)
EBITDA	60,064	52,101	80,686	133,680	86,036	86,318	86,508	104,361	326,530	363,223	422,217
Interest income	16,530	22,572	19,294	18,782	18,905	18,905	18,905	18,905	77,178	75,619	73,106
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	4,000	723	500	500	500	500	15,500	2,000	2,000
Non-operating income	17,918	33,585	24,669	22,005	22,155	22,155	22,155	22,155	98,178	88,619	86,106
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)	(566)	(1,250)	(1,250)	(1,250)	(1,250)	(6,000)	(5,000)	(5,000)
Non-operating expenses	(38,038)	(16,805)	(16,893)	(16,389)	(15,433)	(15,433)	(15,433)	(15,433)	(88,126)	(61,731)	(57,311)
Pre-tax profit	20,403	47,705	44,804	49,036	44,827	45,109	45,299	63,152	161,948	198,387	242,635
Current taxation	(6,804)	(12,262)	(8,961)	(4,363)	(8,965)	(11,277)	(9,060)	(11,962)	(32,390)	(41,265)	(50,468)
Minorities	(775)	(2,443)	(3,025)	(4,758)	(2,113)	(2,600)	(3,738)	(4,550)	(11,000)	(13,000)	(13,000)
Normalised net profit	12,825	33,001	32,818	39,916	33,749	31,232	32,501	46,640	118,559	144,123	179,167
Extraordinary items	(0)	(0)	-	0	-	-	-	-	-	-	-
Net profit	12,825	33,001	32,818	39,916	33,749	31,232	32,501	46,640	118,559	144,123	179,167
EPS (NT\$)	0.93	2.38	2.37	2.88	2.43	2.25	2.34	3.36	8.55	10.40	12.92
Margins (%)											
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	5.2	7.7	5.9	6.1	5.6	5.5	5.4	5.8	6.1
Pretax profit margin	1.4	3.7	2.9	2.8	3.1	3.2	2.9	3.4	2.7	3.1	3.5
Net profit margin	0.9	2.5	2.1	2.3	2.3	2.2	2.1	2.5	2.0	2.3	2.6
Sequential growth (%)											
Revenue growth	(25.5)	(10.8)	18.3	12.6	(15.6)	(3.0)	8.5	21.9			
Gross profit growth	(20.5)	(5.4)	10.8	8.8	(12.7)	1.9	3.4	28.0			
Operating profit growth	(8.4)	(23.7)	19.7	17.3	(12.2)	0.7	0.5	46.3			
EBITDA growth	(8.5)	(13.3)	54.9	65.7	(35.6)	0.3	0.2	20.6			
Pretax profit growth	(61.1)	133.8	(6.1)	9.4	(8.6)	0.6	0.4	39.4			
Net profit growth	(67.9)	157.3	(0.6)	21.6	(15.4)	(7.5)	4.1	43.5			
YoY growth (%)											
Revenue growth	3.9	(13.6)	(11.7)	(11.5)	0.2	9.0	0.0	8.3	(8.8)	4.4	9.3
Gross profit growth	4.2	(13.5)	(14.0)	(9.3)	(0.5)	7.2	0.0	17.6	(8.7)	6.4	13.6
Operating profit growth	10.5	(30.2)	(23.7)	(1.8)	(6.0)	24.1	4.2	30.0	(12.6)	12.9	24.7
EBITDA growth	11.1	(22.7)	27.7	103.6	43.2	65.7	7.2	(21.9)	30.5	11.2	16.2
Pretax profit growth	(44.7)	1.6	(12.5)	(6.5)	119.7	(5.4)	1.1	28.8	(13.6)	22.5	22.3
Net profit growth	(56.5)	(0.9)	(15.3)	(0.2)	163.2	(5.4)	(1.0)	16.8	(16.2)	21.6	24.3

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	3,908,878	4,133,974	4,034,182	4,140,902	4,327,771
Current assets	3,034,417	3,200,506	3,156,369	3,306,961	3,559,065
Cash & ST securities	1,110,661	1,084,732	1,219,079	1,294,670	1,363,714
Inventory	672,145	939,022	856,759	890,722	973,658
Accounts receivable	1,161,219	1,098,690	1,002,469	1,043,508	1,143,632
Other current assets	90,393	78,062	78,062	78,062	78,062
Non-current assets	874,461	933,469	877,813	833,941	768,706
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
Total liabilities	2,335,618	2,483,443	2,315,661	2,340,104	2,427,850
Current liabilities	1,997,680	2,113,814	1,995,511	1,990,955	2,073,231
Accounts payable	1,076,178	1,068,941	975,296	1,013,958	1,108,369
Interest bearing ST liabilities	608,958	647,194	634,441	577,948	547,614
Other current liabilities	312,544	397,678	385,773	399,049	417,248
Non-current liabilities	337,938	369,630	320,151	349,148	354,619
Long-term debt	275,600	301,017	251,538	280,536	286,006
Other L-T liabilities	44,121	51,151	51,151	51,151	51,151
Total equity	1,573,260	1,650,531	1,718,521	1,800,798	1,899,922
Share capital	138,630	138,630	138,630	138,630	138,630
Retained earnings reserve	871,193	925,890	982,880	1,052,158	1,138,281
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
Growth					
Revenue growth	11.9%	10.6%	(8.8%)	4.4%	9.3%
Operating profit growth	34.4%	16.7%	(12.6%)	12.9%	24.7%
EBITDA growth	27.6%	11.5%	30.5%	11.2%	16.2%
Net profit growth	36.9%	1.6%	(16.2%)	21.6%	24.3%
EPS growth	36.9%	1.6%	(16.2%)	21.6%	24.3%
Profitability					
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%	5.8%	6.1%
Net profit margin	2.3%	2.1%	2.0%	2.3%	2.6%
Return on average assets	3.7%	3.5%	2.9%	3.5%	4.2%
Return on average equity	10.4%	10.0%	8.0%	9.3%	11.1%
Stability					
Gross debt to equity	56.2%	57.4%	51.6%	47.7%	43.9%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	9.8	6.4	3.6	4.5	5.6
Interest & ST debt coverage (x)	0.2	0.2	0.1	0.2	0.2
Cash flow interest coverage(x)	(4.5)	3.2	6.2	5.1	5.5
Cash flow/int. & ST debt (x)	(0.2)	0.2	0.6	0.5	0.5
Current ratio (x)	1.5	1.5	1.6	1.7	1.7
Quick ratio (x)	1.2	1.1	1.2	1.2	1.2
Net debt (NT\$m)	(174,860)	(114,115)	(310,695)	(413,781)	(507,689)
Per share data					
EPS (NT\$)	10.05	10.21	8.55	10.40	12.92
CFPS (NT\$)	(7.09)	7.91	28.24	20.81	20.77
BVPS (NT\$)	99.58	104.63	108.75	113.74	119.96
Adj BVPS (NT\$)	99.59	104.65	108.75	113.74	119.96
SPS (NT\$)	432.43	478.09	436.17	455.27	497.59
EBITDA/share (NT\$)	16.19	18.05	23.55	26.20	30.46
Cash DPS (NT\$)	5.20	5.30	4.44	5.40	6.71
Activity					
Sales / avg assets	1.58	1.65	1.48	1.54	1.63
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
Revenue	5,994,174	6,626,997	6,046,619	6,311,395	6,898,071
Cost of goods sold	(5,632,047)	(6,226,912)	(5,681,403)	(5,922,803)	(6,456,594)
Gross profit	362,127	400,085	365,216	388,592	441,477
Operating expenses	(213,168)	(226,297)	(213,320)	(217,093)	(227,636)
Operating profit	148,959	173,788	151,896	171,499	213,840
Non-operating income	66,044	64,268	98,178	88,619	86,106
Interest income	32,456	43,303	77,178	75,619	73,106
Investment income	28,660	11,063	5,500	11,000	11,000
Other non-op income	4,928	9,902	15,500	2,000	2,000
Non-operating expenses	(21,432)	(50,544)	(88,126)	(61,731)	(57,311)
Interest expense	(21,958)	(34,736)	(63,174)	(56,731)	(52,311)
Investment loss	-	-	(18,952)	-	-
Other non-op expenses	527	(15,808)	(6,000)	(5,000)	(5,000)
Pre-tax profit	193,572	187,511	161,948	198,387	242,635
Current taxation	(39,749)	(36,440)	(32,390)	(41,265)	(50,468)
Minorities	(14,503)	(9,589)	(11,000)	(13,000)	(13,000)
Extraordinary items	-	0	-	-	-
Net profit	139,320	141,483	118,559	144,123	179,167
EBITDA	224,441	250,248	326,530	363,223	422,217
EPS (NT\$)	10.05	10.21	8.55	10.40	12.92

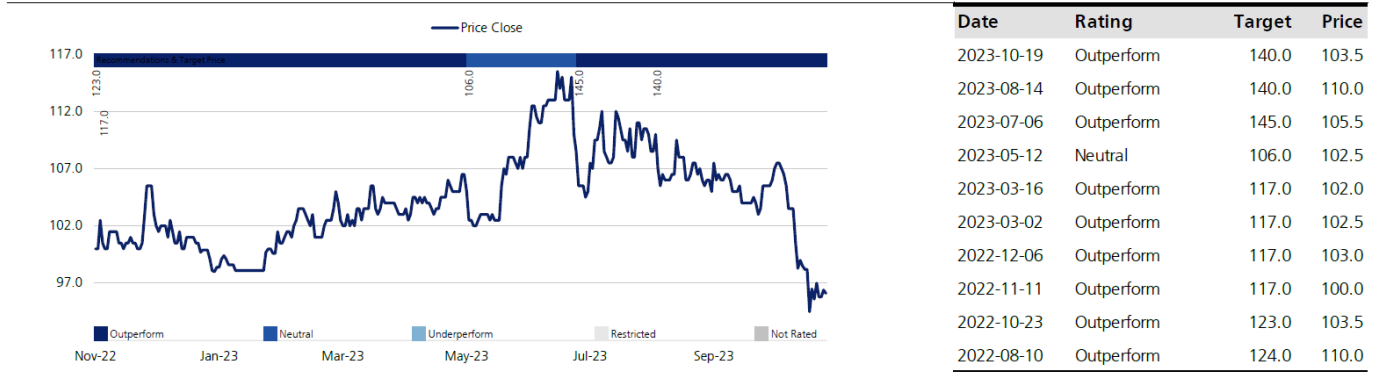
Cash flow

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	(98,212)	109,708	391,484	288,508	287,894
Net profit	139,320	141,483	118,559	144,123	179,167
Depreciation & amortisation	75,481	76,460	174,634	191,724	208,377
Decrease in working capital	(302,448)	(197,434)	84,839	(36,339)	(88,649)
Other operating cash flow	(10,565)	89,199	13,452	(11,000)	(11,000)
Investing cash flow	(92,083)	(45,440)	(132,430)	(136,853)	(132,141)
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)
Free cash flow	(206,247)	(84,746)	275,066	190,288	188,165
Financing cash flow	24,281	(87,872)	(124,706)	(76,064)	(86,709)
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)	(61,569)	(74,845)
Other financing cashflow	(49,702)	(32,006)	11,000	13,000	13,000
Forex effects	(7,363)	26,512	-	-	-
Total cash generated	(173,377)	2,909	134,347	75,591	69,044

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%
= Operating margin	2.5%	2.6%	2.5%	2.7%	3.1%
1 / (Working capital/revenue					
+ 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
= Capital turnover	6.9	6.4	6.7	7.6	8.7
Operating margin	2.5%	2.6%	2.5%	2.7%	3.1%
x Capital turnover	6.9	6.4	6.7	7.6	8.7
x (1 - tax rate)	79.5%	80.6%	80.0%	79.2%	79.2%
= After-tax ROIC	13.5%	13.5%	13.5%	16.4%	21.4%

Source: Company data, KGI Research estimates

Hon Hai – Recommendation & target price history


Source: TEJ, KGI Research

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