



Hon Hai (2317.TW/2317 TT)

Hon Hai Technology Day - AI & EV in the spotlight

FTSE4Good TIP | Taiwan ESG Index stock

Outperform · Maintained

Price as of October 18 (NT\$)	105.5
12M target price (NT\$)	140.0
Previous target price (NT\$)	140.0
Unchanged (%)	0.0
Upside (%)	32.7

Key message

Hon Hai hosted a Technology Day (HHTD), with AI and EV the main topics and Hon Hai showcasing its development of a new EV (Model N), semi components and AI servers. Hon Hai will ride on growing AI and EV demand in coming years, despite very low EV sales contribution currently. Our target price is NT\$140 (17x 2024F EPS of NT\$3.6, on cloud & components, and 11x NT\$7.2, on other). Maintain Outperform.

Trading data

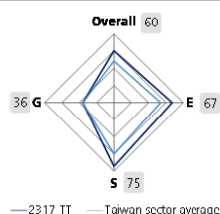
Mkt cap (NT\$bn/US\$m)	1,463 / 45,253
Outstanding shares (mn)	13,863
Foreign ownership (mn)	5,507
3M avg. daily trading (mn)	20.74
52-week trading range (NT\$)	98.00 – 115.5

Performance	3M	6M	12M
Absolute (%)	-5.8	1	1.9
Relative (%)	-1.2	-2.6	-23.4

Quarterly EPS

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

ESG score card



Source: Refinitiv

Event

Hon Hai hosted a Technology Day (2023 HHTD) on October 18, with AI and EV the main topics and Hon Hai showcasing its development of a new EV (Model N), semi components and AI servers.

Impact

AI & EV the key topics at HHTD. Jenson Huang, CEO of Nvidia (US), attended HHTD, stating that “a new type of manufacturing has emerged – the production of intelligence, and the data centers that produce it are AI factories”. As the world’s largest electronics hardware manufacturer, Hon Hai has the expertise and scale to build AI factories around the world, and Nvidia will expand its collaboration to accelerate the AI industrial revolution. The backbone will be Hon Hai’s advanced manufacturing processes that are duplicated across production plants, with platforms standardized based on generative AI and robotics. Powered by AI factories, Hon Hai will extend AI applications to smart city, manufacturing and EV. It will also integrate semiconductor deployment in EV applications. Hon Hai’s semiconductor CSO, Shang-Yi Chiang, said chip requirements are highly diversified in the IoT era, requiring variations and flexibility to generate high design and implementation costs. Thus, sub-system integration has become more important, with Hon Hai providing chiplet die bank, advanced packaging platform, system design, assembly and testing with operating system services. This will help customers reduce manpower, capital investment and time to market.

EV business growing under CDMS & BOL strategies. Hon Hai also unveiled the Model N, an electric cargo van, at HHTD, following earlier launches of Model T (e-bus), Models C, E and B (passenger car) and Model V (pickup truck). EV CSO Jun Seki, who joined Hon Hai early this year, said global EV penetration will depend on government policies around the world, while its contract design & manufacturing service (CDMS) and build, operate & localize (BOL) business model will capitalize on growing EV penetration. China and Europe are both reporting strong EV sales growth of 20-30% annually in recent years, and the CSO sees India and Japan as next in line in growing EV penetration on favorable government regulation and renewable energy investment. CEO of ZF Group (DE) stressed that because software will determine the evolution of the EV industry, hardware can be standardized and modularized with increased flexibility, customization and upgrading via software. This concept fits Hon Hai’s EV business model well. Hon Hai is targeting EV sales of NT\$20bn (mostly components) in 2023F (up from NT\$10bn in 2022), and will see EV assembly sales contribution in 2024F.

Valuation & Action

Hon Hai will ride on growing AI and EV demand in coming years, despite very low EV sales contribution currently. Our target price is NT\$140 (17x 2024F EPS of NT\$3.6 on cloud & components, and 11x NT\$7.2, on other). Maintain Outperform on decent 2024F EPS growth and a low valuation.

Risks

Slow EV sales expansion; weakening global demand.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$m)	5,994,174	6,626,997	6,083,172	6,598,644	7,280,559
Gross profit (NT\$m)	362,127	400,085	367,288	406,368	465,956
Operating profit (NT\$m)	148,959	173,788	152,834	179,622	225,697
Net profit (NT\$m)	139,320	141,483	117,127	149,509	186,736
EPS (NT\$)	10.05	10.21	8.45	10.78	13.47
Cash DPS (NT\$)	5.20	5.30	4.39	5.60	7.00
EPS growth (%)	36.9	1.6	(17.2)	27.6	24.9
PE (x)	10.5	10.3	12.5	9.8	7.8
PB (x)	1.1	1.0	1.0	0.9	0.9
EV/EBITDA (x)	4.6	4.4	2.8	2.2	1.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	4.9	5.0	4.2	5.3	6.6
Return on average equity (%)	10.4	10.0	7.9	9.7	11.5

Source: Company data, KGI Research estimates

Hon Hai Technology Day – Key takeaways

- **EV strategy**
 - Hon Hai showcased its electric cargo van, Model N, during HHTD. The firm aims to offer a new choice to global logistics providers, with flexible space utilization and ergonomic and innovation design.
 - Hon Hai's first pure-electric SUV, the Model C, has been adopted by Luxgen (manufactured by Foxtron EV (2258 TT)) which has placed a pre-order of over 5,000 units for Luxgen n7. It will enter mass production in 4Q23-1Q24F, and will further contribute to sales in 2024-25F.
 - Hon Hai is launching a mass-produced version of Model B (Sporty Crossover), with a NEDC tested mileage range of more than 500 km, a 10% improvement over last year's prototype. The Model B will also have four-wheel drive variant, with 0-100 kph acceleration in 3.9 seconds, compared to 6.6 seconds for the rear wheel drive model. Model B will enter mass production in 4Q24F.
 - Hon Hai has adopted a CDMS (contract design & manufacturing service) business model, along with a strategy of 'modularization' and 'platformization' for EV, to reduce clients' costs and offer time-to-market services.
 - Hon Hai has a five-stage management plan for EV: the idea stage; the study stage; the MOU/ high probability stage; the contract stage; and the production stage. It currently has 14 potential customers and 23 ongoing projects above stage-2.
 - Management is targeting India and Japan as its next potential growth markets on increasing penetration in both, with a favorable regulation environment in India, and growing small car demand in Japan which can be fulfilled by low cost EVs.
 - The CEO of ZF Group (a German leading auto parts company) also spoke during HHTD, and highlighted the importance of software in new vehicles, as the next evolution of the automotive industry. Future vehicles will manage operations, add functionality, and enable new features primarily or entirely through software updates. Hon Hai acquired a 50% stake in ZF Chassis Modules (DE), a subsidiary of ZF Group (DE), and the two parties will establish a new partnership in passenger car chassis systems in the future.
 - The two parties will use this to establish a strategic partnership. Based on the high-quality customer base and market share that ZF Chassis currently has in the automotive market, it will be able to further expand business opportunities in the German market in the future, and also open up new prospects for Hon Hai in the automotive field.
 - Hon Hai exhibited its EV DC charger with power module, produced in-house. It targets to ship AC charger first in Taiwan in 1Q24F for public parking lots, and ship DC charger for school buses in the northern US in 4Q24F. Customers are charge point operators (CPOs), house builders and parking lot management firms.

Figure 1: Hon Hai showcased electric cargo van Model N



Source: Hon Hai

Figure 2: Model N has practical cargo space planning



Source: Hon-Hai

Figure 3: Flexible space utilization for Model N



Source: Hon Hai

Figure 4: Model N has several cameras & radar



Source: Hon-Hai

Figure 5: Advantages of electric cargo van



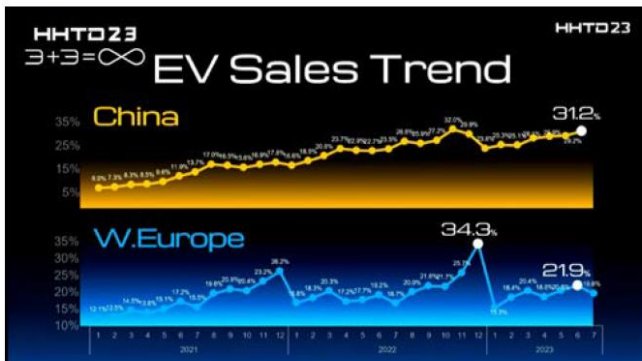
Source: Hon Hai

Figure 6: Three advantages of Model N in safety, efficiency & innovation



Source: Hon-Hai

Figure 7: Accelerating EV shipments penetration in China & Europe



Source: Hon Hai

Figure 8: Key pillar of Hon Hai's EV strategy



Source: Hon-Hai

Figure 9: India next potential market for Hon Hai's EV growth



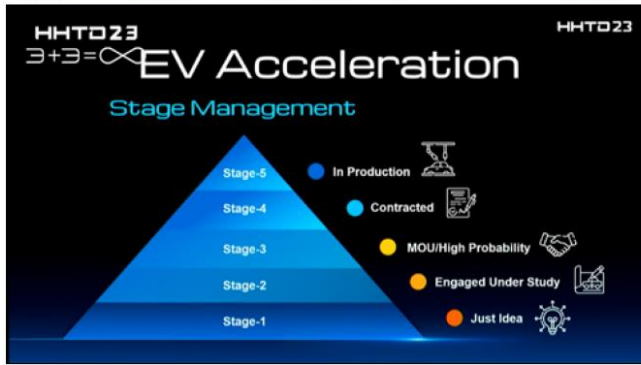
Source: Hon Hai

Figure 10: Smaller, cheaper EV demand booming in Japan



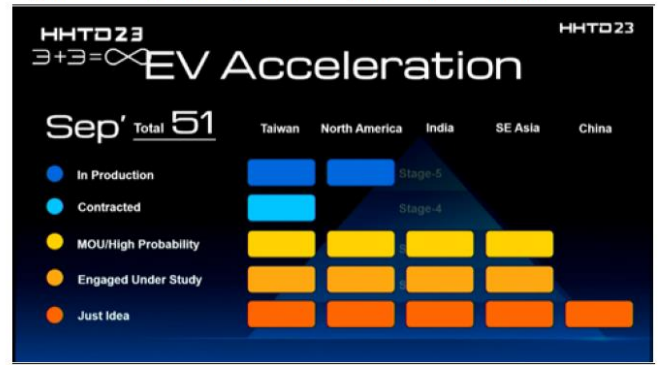
Source: Hon-Hai

Figure 11: Hon Hai's accelerating stages of EV development



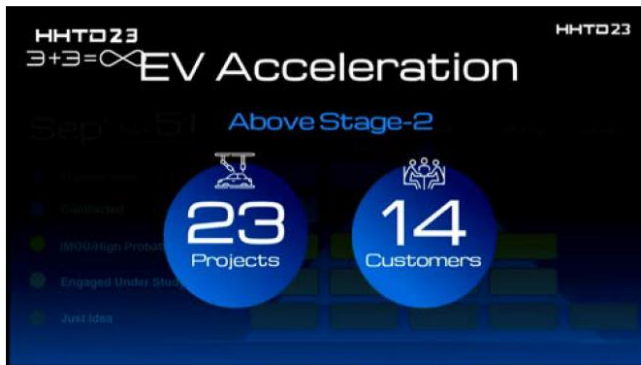
Source: Hon Hai

Figure 12: Hon Hai's global footprint for EV business



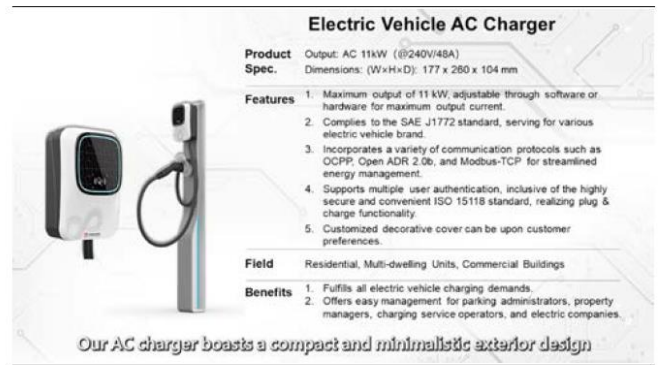
Source: Hon-Hai

Figure 13: Hon Hai has 14 potential customers & 23 projects



Source: Hon Hai

Figure 14: Hon Hai's Taiwan AC charger shipments from 1Q24F



Source: Hon-Hai

Figure 15: Hon Hai's DC charger shipments from 4Q24F in northern US market



Source: Hon Hai

Figure 16: Hon Hai's DC chargers



Source: Hon-Hai

■ Semiconductor strategy

- Hon Hai has a system foundry business model under the trend of integrated chiplet demand, enabling clients to reduce manpower, capital investment and time to market.
- Hon Hai offers chiplet die bank, advanced packaging platform, system design & partition, assembly, testing and operating software services to clients. It aims to transform into a total solutions provider.
- Hon Hai has broad deployment across semiconductor segments. For semiconductor in EV, it will focus on digital IC (US\$1,000; 50% of total power semiconductor content per EV) and power & small IC (US\$500; 25%).

Figure 17: Hon Hai has broad exposure in semiconductor segments



Source: Hon Hai

Figure 18: Hon Hai will focus on power device, analog IC & logic IC in EV semiconductor



Source: Hon-Hai

Figure 19: Vertically integrated SiC ecosystem



Source: Hon Hai

Figure 20: Analog IC strategy



Source: Hon-Hai

Figure 21: Logic IC strategy



Source: Hon Hai

Figure 22: Subsystem integration can minimize packaging & reduce size and power under increased bandwidth and speed



Source: Hon-Hai

■ Cloud AI server development

- At HHTD, CEO of Nvidia Jensen Huang said that “a new type of manufacturing has emerged – the production of intelligence, and the data centers that produce it are AI factories”.
- As the world’s largest electronics hardware manufacturer, Hon Hai has the expertise and scale to build AI factories around the world, and Nvidia will expand its collaboration to accelerate the AI industrial revolution.
- Hon Hai also showcased the server in Nvidia’s GH200 and a high-end AI server with eight H100 GPUs and 32 units of storage in a 10U chassis for the US client.
- Hon Hai said 20% of server sales in 2022 (NT\$1.15tn) were AI server (mostly FPGA, ASIC and GPU), and that this weighting in 1H23 was similar, implying NT\$85-90bn from AI server in 1H23, including module, baseboard, motherboard, server and rack.
- AI was 20-30% of server sales in 1H23F, up 200% YoY. We see this as the main growth driver in 2H23-2024F, and expect more server and rack sales contribution in 2024F. We also see rising cloud sales in 2024F boosting gross margin.
- Hon Hai’s chairman emphasized its net zero strategy, besides all major business developments. It aims to reduce carbon emissions by 21% by 2025F and 63% by 2035F, and to reach net zero by 2050F. It also targets a renewable energy ratio of 50%+ in the future.

Figure 23: Hon Hai built first AI server in 2017



Source: Hon Hai

Figure 24: First AI server in 2017 (HGX-1 with P100 GPU)



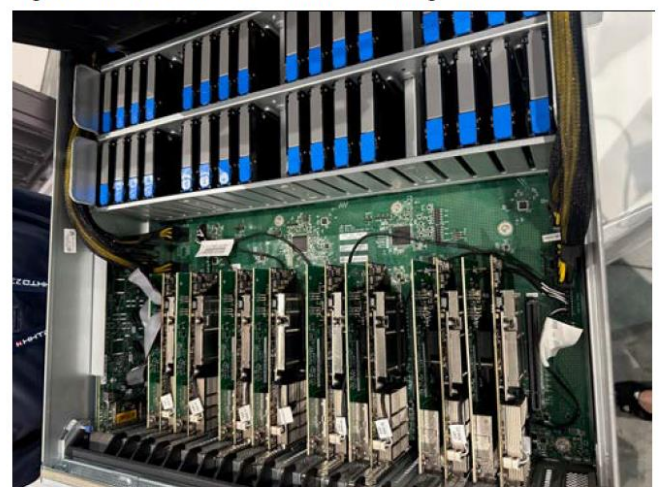
Source: Hon-Hai

Figure 25: Hon Hai’s GH200 server design



Source: Hon Hai

Figure 26: H100 AI server with 32 storage units



Source: Hon-Hai

Figure 27: Single-phase immersion cooling technology



Source: Hon Hai

Figure 28: Two-phase immersion cooling technology



Source: Hon-Hai

Figure 29: Hon Hai targets to achieve net-zero by 2050F



Source: Hon Hai

Figure 30: Renewable energy ratio will exceed 50%



Source: Hon-Hai

Figure 31: Targets for a circular economy



Source: Hon Hai

Figure 32: Hon Hai's diversified global footprint



Source: Hon-Hai

Figure 33: Peer comparison – Valuations of global EMS & ODM/ OEM players

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	45,272	105.50	Outperform	140.0	8.45	10.78	(17.2)	27.6	12.5	9.8	1.0	0.9	7.9	9.7	5.0	4.2
Quanta	2382 TT	25,049	209.50	Outperform	310.0	8.75	11.15	16.5	27.3	23.9	18.8	4.6	4.4	19.6	23.8	2.9	3.3
Pegatron	4938 TT	6,343	76.90	Neutral	81.0	5.58	6.79	(1.5)	21.6	13.8	11.3	1.1	1.1	8.0	9.5	5.2	4.7
Inventec	2356 TT	4,942	44.50	Neutral	62.0	1.52	2.41	(11.1)	58.6	29.3	18.5	2.6	2.6	9.1	14.1	3.4	2.7
Compal*	2324 TT	3,949	28.95	Not rated	N.A.	1.86	2.32	11.4	24.6	15.6	12.5	1.1	1.1	7.0	8.4	6.9	4.4
Wistron	3231 TT	8,168	91.00	Outperform	160.0	3.51	6.61	(12.4)	88.1	25.9	13.8	2.5	2.2	9.8	16.6	2.9	2.7
Asustek	2357 TT	8,058	350.50	Outperform	435.0	15.51	28.97	(21.6)	86.8	22.6	12.1	1.2	1.2	5.4	9.7	4.3	3.1
Acer*	2353 TT	3,359	35.60	Not rated	N.A.	1.57	1.99	(5.8)	26.5	22.6	17.9	1.6	1.5	6.8	8.3	4.2	3.7
Lenovo*	992 HK	11,978	7.73	Not rated	N.A.	0.10	0.14	(29.0)	41.8	78.9	55.6	14.7	12.2	19.9	23.4	0.6	0.6
Apple	AAPL US	2,769,604	177.15	Outperform	200.0	6.00	6.57	(1.7)	9.5	29.5	27.0	45.5	34.4	170.3	151.5	2.0	2.1
HP*	HPQ US	26,782	27.10	Not rated	N.A.	3.30	3.46	(17.2)	4.8	8.2	7.8	(8.0)	(12.0)	(138.9)	(201.4)	3.7	3.9

*EPS of companies listed in Hong Kong are based on HK dollars.

Source: Bloomberg, KGI Research estimates

Figure 34: Peer comparison – Valuations of global auto electronics players

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	45,272	105.50	Outperform	140.0	8.45	10.78	(17.2)	27.6	12.5	9.8	1.0	0.9	7.9	9.7	5.0	4.2
Delta	2308 TT	25,528	317.50	Outperform	401.0	13.26	16.02	5.5	20.8	23.9	19.8	4.5	4.0	18.5	21.2	3.1	2.4
Sinbon	3023 TT	2,388	322.00	Outperform	400.0	14.77	17.39	20.9	17.7	21.8	18.5	5.6	5.1	26.8	29.0	2.6	3.2
Bizlink	3665 TT	1,336	264.50	Outperform	355.0	17.37	27.23	(30.6)	56.7	15.2	9.7	1.8	1.6	12.1	17.7	3.0	3.2
Global PMX	4551 TT	460	129.00	Outperform	165.0	6.91	11.76	(43.3)	70.1	18.7	11.0	1.7	1.6	9.5	15.1	4.7	2.3
Cub Electparts	2231 TT	611	140.00	Neutral	172.0	6.16	7.83	31.3	27.0	22.7	17.9	4.6	4.3	20.1	24.8	1.6	4.3
Hu Lane	6279 TT	469	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 Thih Electronic	3552 TT	368	139.00	Underperform	120.0	0.45	6.70	(93.8)	1392.2	309.4	20.7	2.7	2.6	0.9	12.7	2.5	0.0
Tong Hsing Electronic*	6271 TT	951	147.00	Not rated	N.A.	4.87	8.02	(64.8)	64.8	30.2	18.3	1.3	1.3	4.2	7.0	6.2	1.7
K. S. Terminals*	3003 TT	349	72.40	Not rated	N.A.	4.30	4.92	(25.2)	14.4	16.8	14.7	1.9	1.9	N.M.	N.M.	2.8	3.1
Alltop Tech	3526 TT	354	194.00	Outperform	220.0	9.99	12.30	6.1	23.2	19.4	15.8	4.4	4.1	22.9	27.0	4.8	4.2
CATL*	300750 CH	111,983	186.30	Not rated	N.A.	10.43	13.33	45.3	27.8	17.9	14.0	4.0	3.0	24.1	25.1	0.2	0.9
Zhejiang Sanhua*	002050 CH	14,149	27.73	Not rated	N.A.	0.86	1.07	18.9	25.0	32.4	25.9	7.7	6.6	20.9	21.9	0.9	0.9
Gotion High-Tech*	002074 CH	5,600	23.03	Not rated	N.A.	0.59	0.93	227.2	57.7	39.1	24.8	2.0	1.6	4.4	6.5	0.3	0.1
Tesla	TSLA US	770,170	254.85	Outperform	309.0	3.25	4.68	(20.1)	44.0	78.4	54.5	14.3	11.1	16.7	20.5	0.0	0.0
Peer Average										45.1	19.3	4.0	3.5	14.6	18.3	2.8	2.3

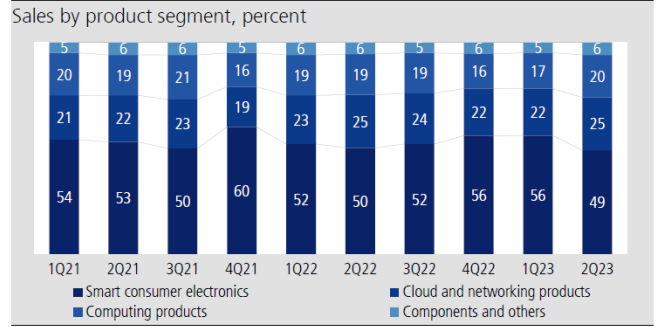
Source: Bloomberg, KGI Research estimates

Figure 35: 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.

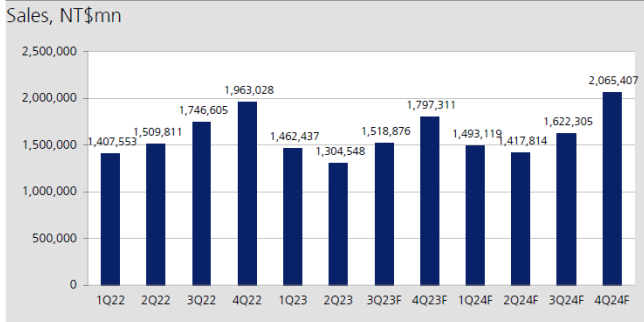
Source: KGI Research

Figure 36: Hon Hai's sales by segment



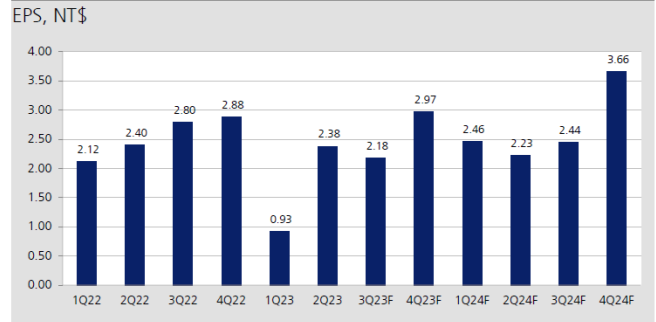
Source: Company data, KGI Research

Figure 37: Sales



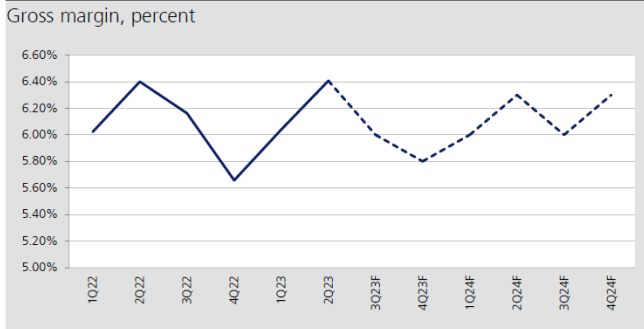
Source: KGI Research

Figure 38: EPS



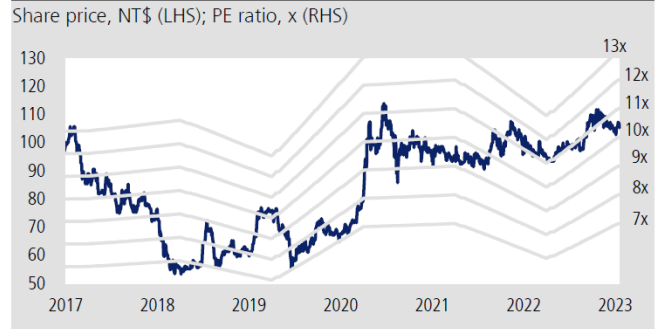
Source: KGI Research

Figure 39: Gross Margin



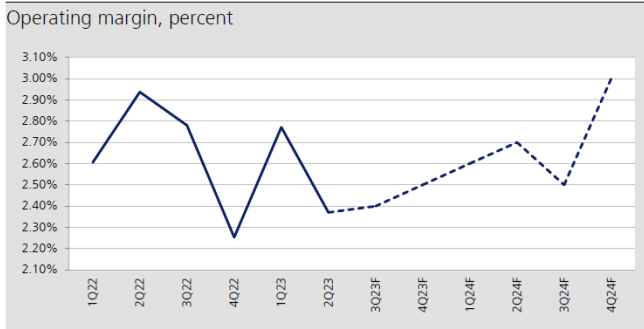
Source: KGI Research

Figure 40: 12M forward PE band



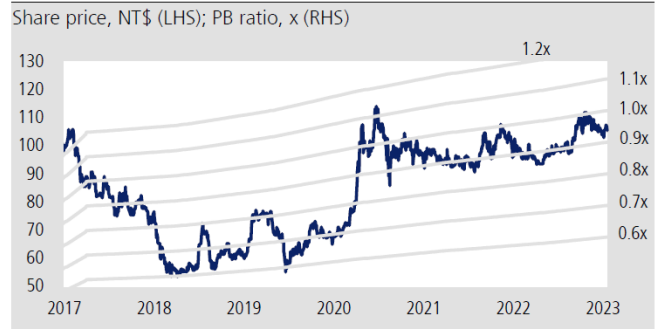
Source: TEJ, KGI Research estimates

Figure 41: Operating Margin



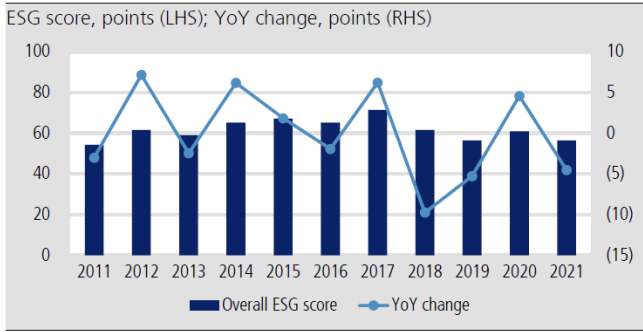
Source: KGI Research

Figure 42: 12M forward PB band



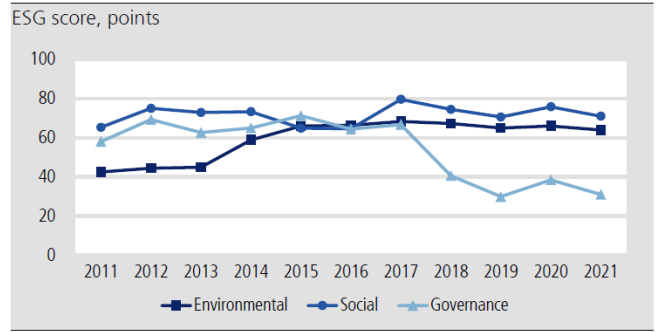
Source: TEJ, KGI Research estimates

Figure 43: Overall ESG score



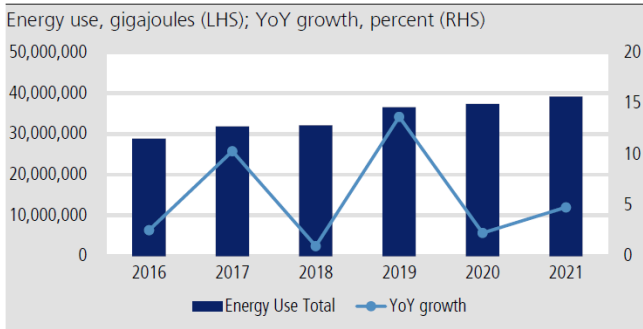
Source: Refinitiv, Company data

Figure 44: ESG scores



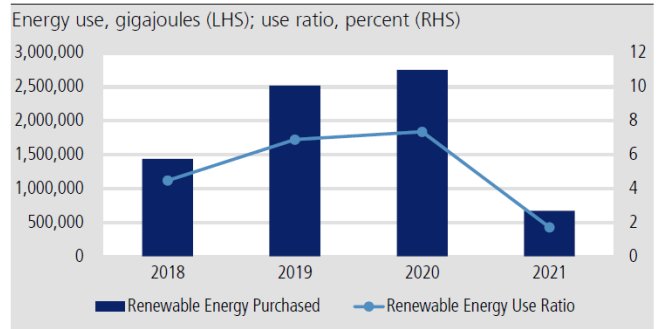
Source: Refinitiv, Company data

Figure 45: Energy use



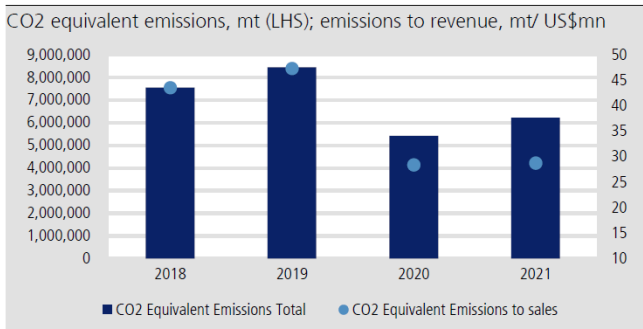
Source: Refinitiv, Company data

Figure 46: Renewable energy



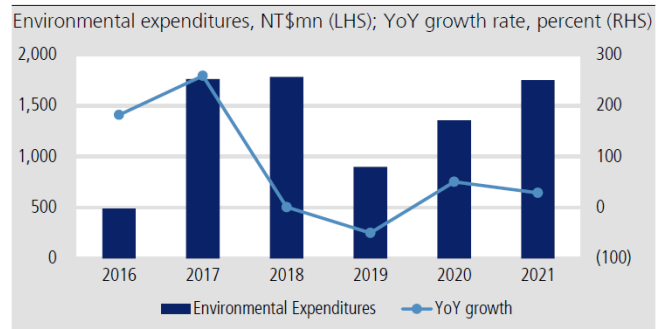
Source: Refinitiv, Company data

Figure 47: CO2 equivalent emissions



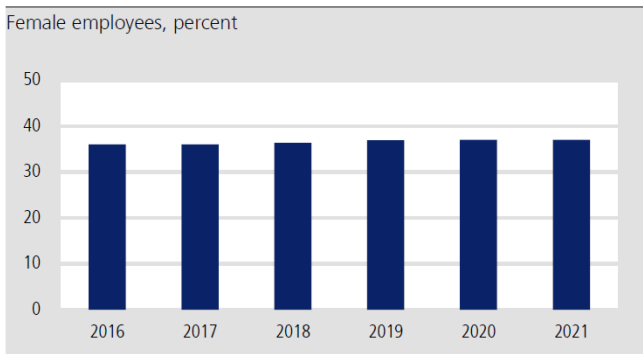
Source: Refinitiv, Company data

Figure 48: Environmental expenditures



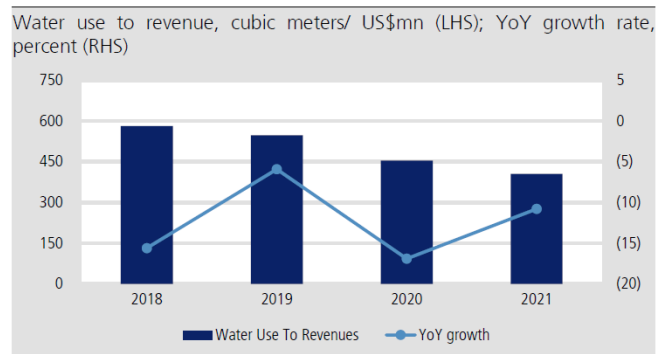
Source: Refinitiv, Company data

Figure 49: Gender diversification



Source: Refinitiv, Company data

Figure 50: 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"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

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

Source: Company data, KGI Research estimates

Balance sheet

NTSmn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	3,908,878	4,133,974	4,038,670	4,191,733	4,398,698
Current assets	3,034,417	3,200,506	3,160,857	3,357,792	3,629,993
Cash & ST securities	1,110,661	1,084,732	1,212,307	1,257,482	1,317,240
Inventory	672,145	939,022	861,959	931,248	1,027,646
Accounts receivable	1,161,219	1,098,690	1,008,529	1,091,001	1,207,044
Other current assets	90,393	78,062	78,062	78,062	78,062
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	2,320,837	2,389,033	2,493,238
Current liabilities	1,997,680	2,113,814	2,000,686	2,039,885	2,138,619
Accounts payable	1,076,178	1,068,941	981,216	1,060,091	1,169,827
Interest bearing ST liabilities	608,958	647,194	634,441	577,948	547,614
Other current liabilities	312,544	397,678	385,030	401,846	421,179
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 LT liabilities	44,121	51,151	51,151	51,151	51,151
Total equity	1,573,260	1,650,531	1,717,833	1,802,699	1,905,461
Share capital	138,630	138,630	138,630	138,630	138,630
Retained earnings reserve	871,193	925,890	982,192	1,054,059	1,143,820
Minority interests	192,803	199,986	210,986	223,986	236,986
Preferred shareholders funds	-	-	-	-	-

Key ratios

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

Source: Company data, KGI Research estimates

Profit & loss

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

Cash flow

NTSmn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	(98,212)	109,708	384,712	257,349	281,406
Net profit	139,320	141,483	117,127	149,509	186,736
Depreciation & amortisation	75,481	76,460	174,634	191,724	208,377
Decrease in working capital	(302,448)	(197,434)	79,499	(72,885)	(102,706)
Other operating cash flow	(10,565)	89,199	13,452	(11,000)	(11,000)
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)	270,476	160,176	183,498
Financing cash flow	24,281	(87,872)	(124,706)	(75,321)	(89,506)
Increase in short term debt	99,435	23,682	(80,000)	(40,000)	(40,000)
Increase in long term loans	28,293	7,242	17,767	12,505	15,136
New ordinary shares issued	5,000	(7,763)	-	-	-
Ordinary dividends paid	(58,745)	(79,026)	(73,474)	(60,826)	(77,642)
Other financing cashflow	(49,702)	(32,006)	11,000	13,000	13,000
Forex effects	(7,363)	26,512	-	-	-
Total cash generated	(173,377)	2,909	127,575	45,175	59,759

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	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.1	0.1	0.0	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	6.9	6.4	6.7	7.6	8.6
Operating margin	2.5%	2.6%	2.5%	2.7%	3.1%
x Capital turnover	6.9	6.4	6.7	7.6	8.6
x (1 - tax rate)	79.5%	80.6%	80.0%	79.2%	79.2%
= After-tax ROIC	13.5%	13.5%	13.5%	16.4%	21.2%

Source: Company data, KGI Research estimates

Hon Hai – Recommendation & target price history



Date	Rating	Target	Price
2023-08-14	Outperform	140.0	110.0
2023-07-06	Outperform	145.0	105.5
2023-05-12	Neutral	106.0	102.5
2023-03-16	Outperform	117.0	102.0
2023-03-02	Outperform	117.0	102.5
2022-12-06	Outperform	117.0	103.0
2022-11-11	Outperform	117.0	100.0
2022-10-23	Outperform	123.0	103.5
2022-08-10	Outperform	124.0	110.0
2022-07-05	Outperform	122.0	102.5

Source: TEJ, KGI Research

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