

Hon Hai (2317.TW/2317 TT)

2Q24 sales beat; 2025F cloud & iPhone sales the drivers

FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of July 5 (NT\$)	214.5
12M target price (NT\$)	270.0
Previous target price (NT\$)	205.0
Revised up (%)	31.7
Upside (%)	25.9

Key message

- 2Q24 sales beat on better CE and cloud sales; we expect gross margin to rise QoQ.
- We raise 2024.25F sales and EPS on a better cloud and CE sales outlook, as GB200 demand will be stronger in 2025F; iPhone demand also stronger on AI features, boosting upgrade demand.
- Despite cloud gross margin dilution on a higher AI server weighting, we expect a stable operating margin and solid EPS growth in 2025F.

Trading data

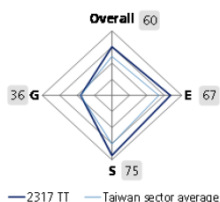
Mkt cap (NT\$/bn/US\$mn)	2,974 / 91,647
Outstanding shares (mn)	13,863
Foreign ownership (mn)	5,730
3M avg. daily trading (mn)	84.04
52-week trading range (NT\$)	94.50 –217.5

Performance	3M	6M	12M
Absolute (%)	34.9	106.3	97.7
Relative (%)	19.1	71.8	59.6

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	2.12A	2.40A	2.80A	2.88A
2023	0.93A	2.38A	3.11A	3.83A
2024	1.59A	2.61F	3.14F	4.58F

ESG score card



Source: Refinitiv

Event

June sales were NT\$491bn (down 11% MoM but up 16% YoY), and 2Q24 sales were NT\$1.55tn (up 17% QoQ and 19 % YoY), beating our estimate on new iPad sales and growing cloud server sales. We think 2H24F sales will be strong on increased AI server ramp up and new iPhone launches, with a better-than-expected 2025F outlook.

Impact

2Q24 sales beat. June sales were NT\$491bn and 2Q24 sales were NT\$1.55tn (up 17% QoQ and 19 % YoY), beating our forecasts but in line with the positive 2Q24 guidance notice last month. In 2Q24, computing and cloud sales were better than we expected, both up over 15%. Consumer sales were down QoQ and component sales rose over 15% QoQ, in line with guidance. On a better product mix and higher sales, we expect 2Q24F gross margin to improve QoQ. Our 2Q24F EPS estimate is revised up to NT\$2.61 (up 10%YoY and 65% QoQ).

Cloud server & CE sales rebound in 2H24-2025F. Hon Hai is positive on 3Q24 due to peak season and new iPhone model rollouts. General server sales have improved since 2Q24 and AI server demand will grow more strongly in 2H24F on better GPU supply and shipments commencement of Blackwell GPU after 4Q24F. On better-than-expected 2Q24 sales and 2H24F sales growth, we revise up 2024F sales. Our revised EPS is NT\$11.92 (up 16% YoY). With a better-than-expected GB200 AI server outlook for 2025F, we raise cloud sales by 10% to NT\$3.1tn, and we are now more positive on iPhone demand next year due to replacement and upgrade demand resumption on AI iPhone launch with Apple Intelligence and iOS 18. While we don't expect Hon Hai's consumer electronics (CE) sales to grow in 2024F on competition, we do expect CE sales to bottom out this year and resume growth in 2025F as the firm's global footprint in iPhone production will boost assembly sales weighting to above 60%, coupled with iPhone demand growth to a peak of 240mn units next year. With CE (sales contribution 40-50%) and cloud (30-40%) driving growth next year, we raise 2025F sales and EPS. Our revised sales growth estimate is 24% YoY, and EPS is NT\$15.1, up 27% YoY, vs. 20% and NT\$14.19 previously. Hon Hai guides cloud and networking sales to grow over 15% this year, with AI sales growth of 40%-plus and contribution over 40%. We forecast 45% cloud and networking sales growth and a 30% sales contribution in 2024F, and in 2025F we expect 58% cloud and networking sales growth for a 35-40% contribution. Despite gross margin dilution from AI server, we expect operating margin to be close to the average level, driving EPS growth in 2025F.

Valuation & Action

Our target price is raised from NT\$205 to NT\$270, based on 20x 2024-25F EPS (for a 2023-25F EPS CAGR of 16%). Maintain Outperform.

Risks

Slow EV orders and components development; weakening global demand.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$mn)	5,994,174	6,626,997	6,162,221	6,648,793	8,268,977
Gross profit (NT\$mn)	362,127	400,085	387,947	428,223	481,553
Operating profit (NT\$mn)	148,959	173,788	166,528	201,655	248,459
Net profit (NT\$mn)	139,320	141,483	142,098	165,260	209,303
EPS (NT\$)	10.05	10.21	10.25	11.92	15.10
Cash DPS (NT\$)	5.20	5.30	5.40	6.28	7.95
EPS growth (%)	36.9	1.6	0.4	16.3	26.7
PE (x)	21.3	21.0	20.9	18.0	14.2
PB (x)	2.2	2.0	2.0	1.9	1.8
EV/EBITDA (x)	10.2	9.5	9.2	7.0	6.1
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	2.4	2.5	2.5	2.9	3.7
Return on average equity (%)	10.4	10.0	9.7	10.8	12.9

Source: Company data, KGI Research estimates

Figure 1: Breakdown of June and 2Q24 monthly sales by business

Percent	June sales		2Q24 sales		2Q24 Guidance		
	MoM	YoY	QoQ	YoY	QoQ	YoY	
Consumer electronics	Down	Down	0~-4	0~-4	+4~-4	+4~-4	in line
Cloud	> 15	> 15	> 15	> 15	> 15	> 15	Beat
Computing	Down	+4~15	> 15	> 15	> 15	> 15	Beat
Components/ other	Slightly decline	> 15	> 15	> 15	> 15	> 15	in line
Total sales	(10.8)	16.1	17.2	19.0	+4~15	+4~15	Beat

Source: Company data, Bloomberg, KGI Research

Figure 2: Breakdown of 2Q24 & 3Q24 forecasts & revisions vs. consensus

NT\$m	2Q24F							3Q24F						
	Revision	Previous	Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	1,551,779	1,438,998	7.8	17.2	19.0	1,484,168	4.6	1,706,957	1,680,502	1.6	10.0	10.6	1,735,210	(1.6)
Gross profits	99,314	89,218	11.3	18.7	18.8	93,681	6.0	110,952	110,913	0.0	11.7	8.0	114,559	(3.1)
Operating income	43,450	37,414	16.1	18.2	40.5	38,912	11.7	51,209	50,415	1.6	17.9	11.0	53,894	(5.0)
Pretax Income	51,734	45,729	13.1	59.1	8.4	47,049	10.0	58,993	58,230	1.3	14.0	3.1	61,329	(3.8)
Net income	36,241	31,696	14.3	64.7	9.8	33,608	7.8	43,515	42,846	1.6	20.1	0.9	45,166	(3.7)
EPS (NT\$)	2.61	2.29	14.3	64.7	9.8	2.42	7.8	3.14	3.09	1.6	20.1	0.9	3.26	(3.7)
Gross margin (%)	6.4	6.2	0.2 ppts	0.1 ppts	(0.0)ppts	6.3	0.1 ppts	6.5	6.6	(0.1)ppts	0.1 ppts	(0.2)ppts	6.6	(0.1)ppts
OP margin (%)	2.8	2.6	0.2 ppts	0.0 ppts	0.4 ppts	2.6	0.2 ppts	3.0	3.0	(0.0)ppts	0.2 ppts	0.0 ppts	3.1	(0.1)ppts
Net margin (%)	2.3	2.2	0.1 ppts	0.7 ppts	(0.2)ppts	2.3	0.1 ppts	2.5	2.5	(0.0)ppts	0.2 ppts	(0.2)ppts	2.6	(0.1)ppts

Source: Company data, Bloomberg, KGI Research

Figure 3: Breakdown of 2024-25 forecasts & revisions vs. consensus

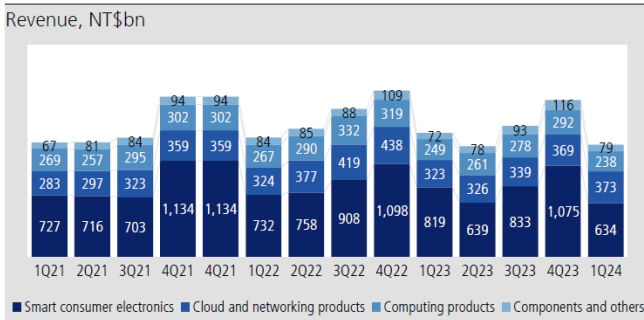
NT\$m	2024F						2025F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	6,648,793	6,562,658	1.3	7.9	6,686,874	(0.6)	8,268,977	7,894,036	4.7	24.4	8,187,680	1.0
Gross profit	428,223	421,539	1.6	10.4	427,492	0.2	481,553	473,989	1.6	12.5	515,005	(6.5)
Operating income	201,655	192,393	4.8	21.1	193,145	4.4	248,459	233,488	6.4	23.2	245,614	1.2
Pretax Income	221,193	212,052	4.3	15.1	213,188	3.8	277,395	260,600	6.4	25.4	275,697	0.6
Net income	165,260	157,702	4.8	16.3	155,713	6.1	209,303	196,783	6.4	26.7	200,949	4.2
EPS (NT\$)	11.92	11.38	4.8	16.3	11.23	6.1	15.10	14.19	6.4	26.7	14.50	4.2
Gross margin (%)	6.4	6.4	0.0 ppts	0.1 ppts	6.4	0.0 ppts	5.8	6.0	(0.2)ppts	(0.6)ppts	6.3	(0.5)ppts
OP margin (%)	3.0	2.9	0.1 ppts	0.3 ppts	2.9	0.1 ppts	3.0	3.0	0.0 ppts	(0.0)ppts	3.0	0.0 ppts
Net margin (%)	2.5	2.4	0.1 ppts	0.2 ppts	2.3	0.2 ppts	2.5	2.5	0.0 ppts	0.0 ppts	2.5	0.1 ppts

Source: Company data, Bloomberg, KGI Research estimates

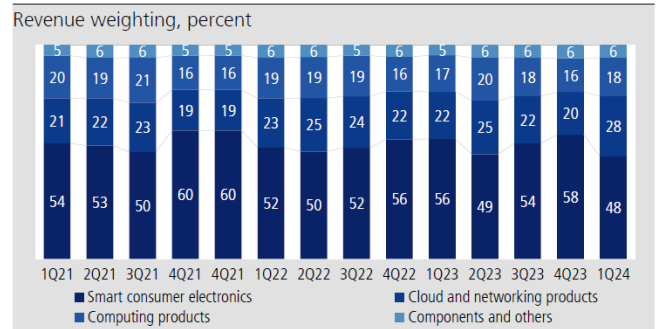
Figure 4: Product mix

Sales (NT\$bn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	732	758	908	1,098	819	639	833	1,075	634	627	2,593	3,280	3,496	3,366	3,244	3,400
Cloud & networking	324	377	419	438	323	326	339	369	373	523	1,316	1,267	1,557	1,358	1,973	3,111
Computing	267	290	332	319	249	261	278	292	238	302	1,136	1,114	1,208	1,079	1,162	1,217
Components & others	84	85	87	109	72	78	93	116	79	100	313	334	365	359	269	542
Total	1,408	1,510	1,747	1,963	1,462	1,305	1,543	1,852	1,324	1,552	5,358	5,994	6,627	6,162	6,649	8,269
Weighting (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	52	50	52	56	56	49	54	58	48	40	48	55	53	54	49	41
Cloud & networking	23	25	24	22	22	25	22	20	28	34	25	21	24	22	30	38
Computing	19	19	19	16	17	20	18	16	18	19	21	19	18	18	17	15
Components & others	6	6	5	6	5	6	6	6	6	6	6	6	6	6	7	7
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
YoY (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	1	6	29	(3)	12	(16)	(8)	(2)	(23)	(2)	(2)	27	7	(4)	(4)	5
Cloud & networking	14	27	29	20	(0)	(14)	(19)	(16)	15	60	5	(4)	23	(13)	45	58
Computing	2	12	13	8	(7)	(10)	(16)	(8)	(4)	16	2	(2)	8	(11)	8	5
Components & others	14	4	4	15	(15)	(7)	6	7	10	27	(3)	7	9	(2)	25	21
Total	4	12	24	4	4	(14)	(12)	(6)	(9)	19	0	12	11	(7)	8	24
QoQ (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24F	2020	2021	2022	2023	2024F	2025F
Smart consumer electronics	(36)	4	20	21	(25)	(22)	30	29	(41)	(1)						
Cloud & networking	(11)	17	11	5	(26)	1	4	9	1	40						
Computing	(10)	8	15	(4)	(22)	5	6	5	(18)	27						
Components & others	(11)	0	3	25	(34)	9	18	25	(32)	26						
Total	(26)	7	16	12	(26)	(11)	18	20	(29)	17						

Source: Company data, KGI Research estimates

Figure 5: Revenue mix by product


Source: Company data, KGI Research

Figure 6: Revenue mix by product


Source: Company data, KGI Research

Figure 7: Hon Hai has announced partnerships with traditional & emerging automakers

Company	Announcement	JV ownership	Details
	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	3) FIH Mobile, Hon Hai's subsidiary, jointly invested in Mobile Drive with Stellantis to focus on infotainment, telematics and cloud service platform development for smart cockpit. 4) Software R&D including AI, navigation, voice assistance, and payment systems. 5) Targets self-designed IC chips adopted in Stellantis vehicles by 2024.
	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 SAR\$62.5mn 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 8: Hon Hai has announced partnerships with key EV component manufacturers

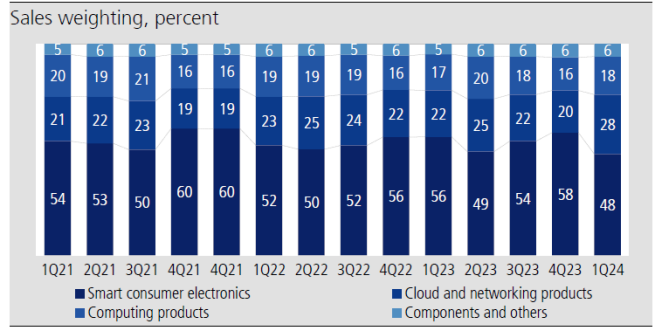
Company	Announcement	JV ownership	Product	Details
	May-21	N.A.	Small IC (power and analog)	1) JV Xsemi will focus on ASP < US\$2 small IC (power and analog). 2) Xsemi will be headquartered in Hsinchu, mainly for small IC sales and channel development.
	Jun-21	N.A.	Battery material	1) Hon Hai invested 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	N.A.	Metaverse	1) Signed MoU to work on hardware and software vertical integration to create holistic Metaverse ecosystem. 2) Focused on AR/VR, software, infrastructure, content and cloud services. 3) Hon Hai will help XRSPACE to improve its platform performance of PartyOn and GOXR. 4) Hon Hai plans to invest US\$15mm to acquire 9.09-9.68% in the first stage, and could increase investment to maximum of US\$100mm if needed.
	Apr-22	N.A.	Green Power	1) Hon Hai signed MoU with Shinfex Energy's subsidiary, Fu Wei Power, for green power procurement. 2) Hon Hai purchased 2.36 million units of green power this year and expects to purchase 70 million units by 2030.
	Apr-22	100%	RF semiconductor	1) Hon Hai completed acquisition of arQana's wireless department, which will merge with AcheronTek Inc. to form new company iCana. 2) Becoming global RF semiconductor component supplier to strengthen product development for 5G Sub-6 and millimeter wave. 3) Expanding internet vehicles and electric vehicles market.
	May-22	Hon Hai 5.03%	Semiconductor	1) Hon Hai subsidiary, Big Innovation Holdings Limited (BIH), signed MoU with DNeX Group. 2) Constructing 12-inch wafer fab in Malaysia with monthly capacity of 40K wafers, mainly in 28 and 40 nanometers. 3) Targets production of power components, radio frequency components, and CMOS image sensor products.
	May-22	49% Yageo 51% Hon Hai	Semiconductor	1) Hon Hai participated in NT\$3.1 billion capital increase of XSEMI and will hold 51% of XSEMI. 2) JV will mainly serve system and channel customers. 3) XSEMI participated in NT\$2.8 billion private placement with Fudin; XSEMI will be the largest shareholder at 30.08%. Targets complete line of medium and high-voltage 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.
	Jan-23		Connector	1) Hon Hai's Hon Teng Precision Technology (FIT) announced to acquire PRETTL SWH Group for 186mm euros. 2) PRETTL SWH Group is a German firm assisting customers in the development and manufacture of high-end automotive sensor wiring harnesses and connectors and automotive power solutions. 3) This acquisition is estimated to bring FIT an annual revenue contribution of about 350-400mm euros in the short term and is expected to improve FIT's overall gross margin on better product mix in the future.
	May-23		Semiconductor	1) Infineon and Hon Hai sign MoU to partner on SiC collaboration in EV development. 2) The MoU addresses their collaboration on the implementation of SiC technology in automotive high-power applications including traction inverters, onboard chargers, and DC-DC converters. 3) A system application center in Taiwan is expected to be established in 2023 to further expand the scope of their cooperation.
	Jun-23	50% Hon Hai 50% Stellantis	Semiconductor	1) Stellantis and Hon Hai announced to create SiliconAuto, a JV to design and sell automotive semiconductors. 2) SiliconAuto's products will start to tailor chips for Hon Hai, Stellantis and other customers in 2026.
	Jul-23		Digital Cockpit, Battery Management System (BMS)	1) Hon Hai and Analog Devices signed a MoU to jointly develop the next-generation digital car cockpit and BMS. 2) The two firms aims to create a smarter mobility ecosystem by advancing software-defined vehicles.
	Jul-23	50% Hon Hai 50% ZF Group	Chassis	1) Foxconn acquires 50% stake in ZF Chassis Modules GmbH, a unit of ZF Group with an enterprise value of €1bn. 2) The partnership focuses on the development of passenger car chassis system. 3) This strategic partnership will leverage capabilities of the two parties and expand the range of product offerings in ICE/EV space, and seeks to enlarge customer base for the both.
	Jan-24	40% Hon Hai	Semiconductor	1) Hon Hai and HCL Group jointly set a semiconductor OSAT in India. 2) The manufacturing site will locate in Karnataka, with a focused on small and medium-outline package.

Source: Company data, KGI Research

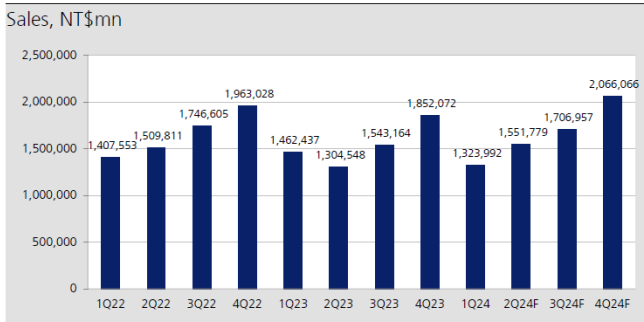
Figure 9: Company profile

Founded in 1974, Hon Hai 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.

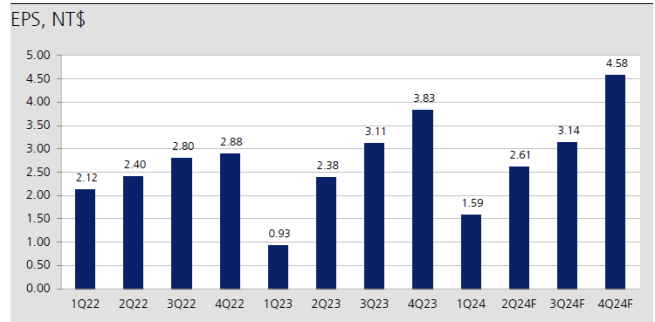
Source: Company data, KGI Research

Figure 10: Sales by segment


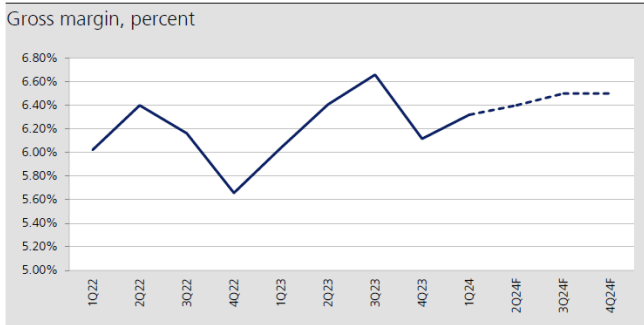
Source: Company data, KGI Research

Figure 11: Sales


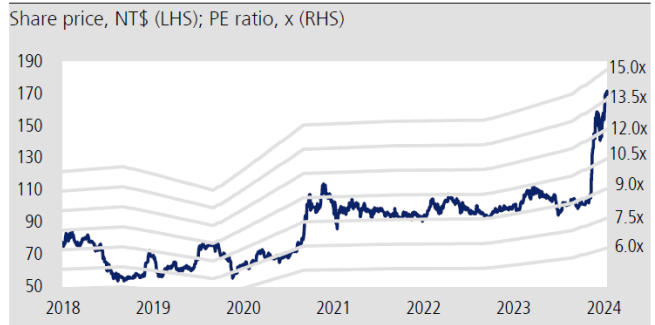
Source: KGI Research

Figure 12: EPS


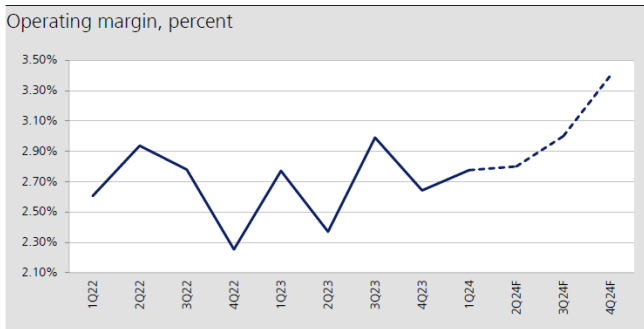
Source: KGI Research

Figure 13: Gross Margin


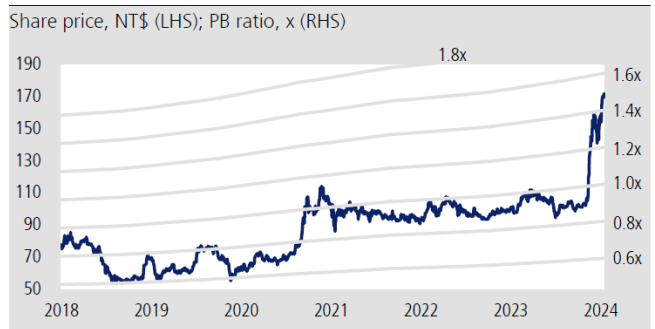
Source: KGI Research

Figure 14: 12M forward PE band


Source: TEJ; KGI Research estimates

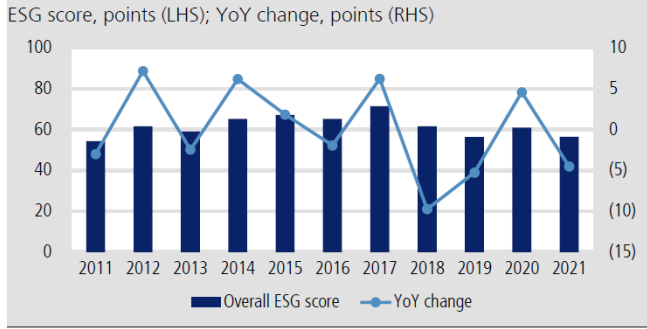
Figure 15: Operating Margin


Source: KGI Research

Figure 16: 12M forward PB band


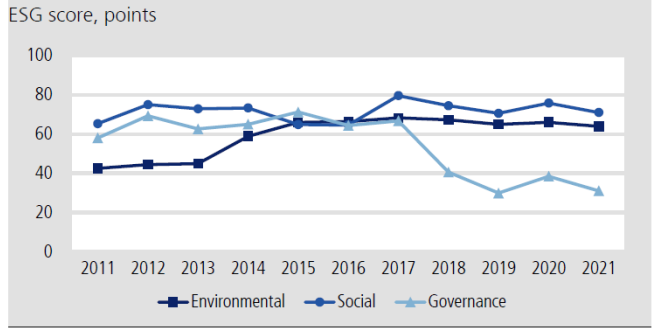
Source: TEJ; KGI Research estimates

Figure 17: Overall ESG score



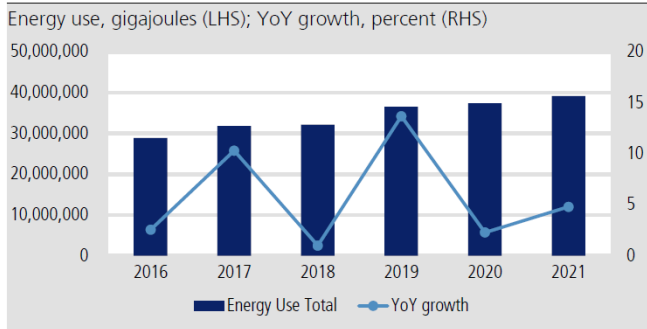
Source: Refinitiv, Company data

Figure 18: ESG score



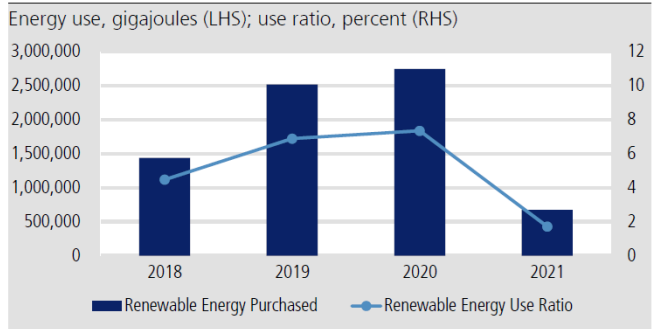
Source: Refinitiv, Company data

Figure 19: Energy use



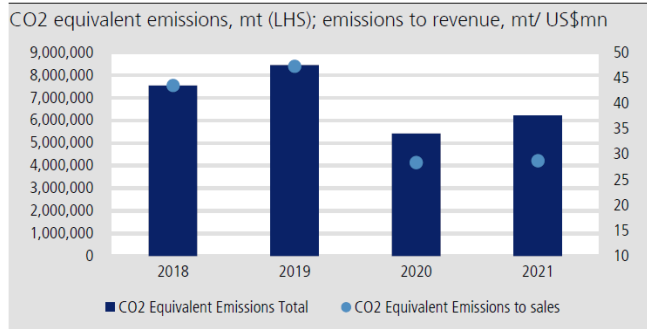
Source: Refinitiv, Company data

Figure 20: Renewable energy



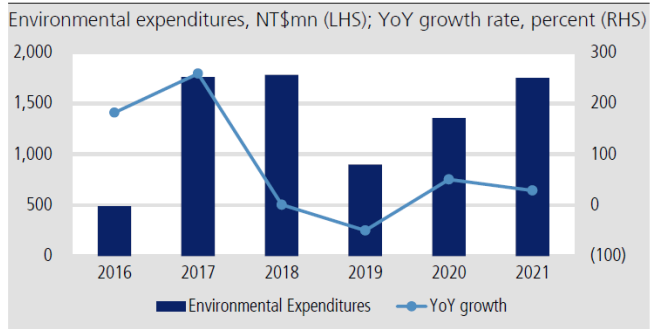
Source: Refinitiv, Company data

Figure 21: CO2 equivalent emissions



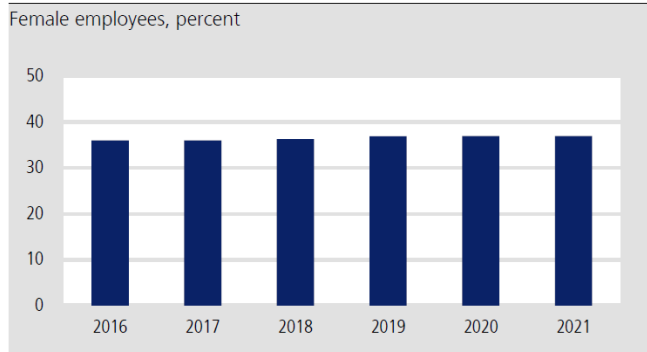
Source: Refinitiv, Company data

Figure 22: Environmental expenditures



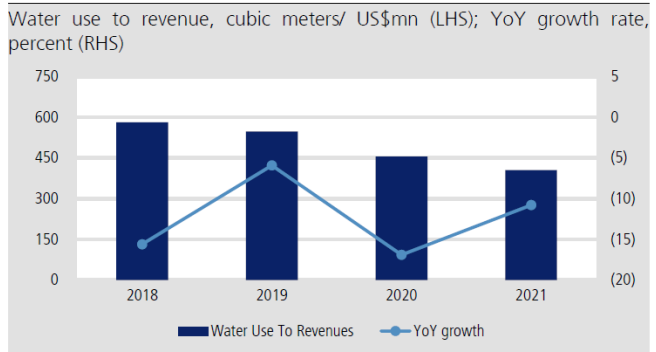
Source: Refinitiv, Company data

Figure 23: Gender diversification



Source: Refinitiv, Company data

Figure 24: 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\$m) - 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-23A	Dec-23A	Mar-24A	Jun-24F	Sep-24F	Dec-24F	Dec-23A	Dec-24F	Dec-25F
Income statement (NT\$m)											
Revenue	1,462,437	1,304,548	1,543,164	1,852,072	1,323,992	1,551,779	1,706,957	2,066,066	6,162,221	6,648,793	8,268,977
Cost of goods sold	(1,374,103)	(1,220,971)	(1,440,410)	(1,738,790)	(1,240,329)	(1,452,465)	(1,596,005)	(1,931,772)	(5,774,274)	(6,220,571)	(7,787,424)
Gross profit	88,334	83,577	102,753	113,282	83,662	99,314	110,952	134,294	387,947	428,223	481,553
Operating expenses	(47,811)	(52,652)	(56,604)	(64,352)	(46,912)	(55,864)	(59,743)	(64,048)	(221,419)	(226,567)	(233,094)
Operating profit	40,523	30,925	46,150	48,930	36,751	43,450	51,209	70,246	166,528	201,655	248,459
Depreciation of fixed assets	(18,039)	(19,746)	(20,828)	(20,059)	(19,473)	(29,904)	(29,904)	(40,335)	(78,672)	(119,617)	(132,517)
Amortisation of intangible assets	(1,502)	(1,429)	(1,574)	(1,229)	(792)	(1,348)	(1,348)	(1,903)	(5,734)	(5,390)	(5,390)
EBITDA	60,064	52,101	68,552	70,218	57,016	74,702	82,460	112,484	250,934	326,662	386,366
Interest income	16,530	22,572	20,869	21,730	15,437	19,131	19,131	22,826	81,700	76,526	74,717
Investment income	356	1,269	2,835	762	310	1,500	1,500	2,190	5,222	5,500	12,000
Other non-op income	1,032	9,744	5,111	11,715	905	1,200	700	11,195	27,603	14,000	8,000
Non-operating income	17,918	33,585	28,815	34,207	16,652	21,831	21,331	36,211	114,525	96,026	94,717
Interest expense	(14,752)	(16,805)	(17,747)	(16,239)	(10,636)	(13,547)	(13,547)	(16,458)	(65,543)	(54,188)	(53,781)
Investment loss	(18,952)	-	-	-	(10,649)	-	-	149	(18,952)	(10,500)	(8,000)
Other non-op expenses	(4,334)	-	-	-	392	-	-	(12,192)	(4,334)	(11,800)	(4,000)
Non-operating expenses	(38,038)	(16,805)	(17,747)	(16,239)	(20,894)	(13,547)	(13,547)	(28,500)	(88,829)	(76,488)	(65,781)
Pre-tax profit	20,403	47,705	57,217	66,898	32,509	51,734	58,993	77,957	192,224	221,193	277,395
Current taxation	(6,804)	(12,262)	(9,727)	(8,641)	(7,636)	(12,934)	(11,799)	(10,764)	(37,435)	(43,133)	(54,092)
Minorities	(775)	(2,443)	(4,362)	(5,112)	(2,864)	(2,560)	(3,680)	(3,696)	(12,691)	(12,800)	(14,000)
Normalised net profit	12,825	33,001	43,128	53,145	22,009	36,241	43,515	63,496	142,098	165,260	209,303
Extraordinary items	(0)	(0)	(0)	0	0	-	-	(0)	-	-	-
Net profit	12,825	33,001	43,128	53,145	22,009	36,241	43,515	63,496	142,098	165,260	209,303
EPS (NT\$)	0.93	2.38	3.11	3.83	1.59	2.61	3.14	4.58	10.25	11.92	15.10
Margins (%)											
Gross profit margin	6.0	6.4	6.7	6.1	6.3	6.4	6.5	6.5	6.3	6.4	5.8
Operating margin	2.8	2.4	3.0	2.6	2.8	2.8	3.0	3.4	2.7	3.0	3.0
EBITDA margin	4.1	4.0	4.4	3.8	4.3	4.8	4.8	5.4	4.1	4.9	4.7
Pretax profit margin	1.4	3.7	3.7	3.6	2.5	3.3	3.5	3.8	3.1	3.3	3.4
Net profit margin	0.9	2.5	2.8	2.9	1.7	2.3	2.5	3.1	2.3	2.5	2.5
Sequential growth (%)											
Revenue growth	(25.5)	(10.8)	18.3	20.0	(28.5)	17.2	10.0	21.0			
Gross profit growth	(20.5)	(5.4)	22.9	10.2	(26.1)	18.7	11.7	21.0			
Operating profit growth	(8.4)	(23.7)	49.2	6.0	(24.9)	18.2	17.9	37.2			
EBITDA growth	(8.5)	(13.3)	31.6	2.4	(18.8)	31.0	10.4	36.4			
Pretax profit growth	(61.1)	133.8	19.9	16.9	(51.4)	59.1	14.0	32.1			
Net profit growth	(67.9)	157.3	30.7	23.2	(58.6)	64.7	20.1	45.9			
YoY growth (%)											
Revenue growth	3.9	(13.6)	(11.6)	(5.7)	(9.5)	19.0	10.6	11.6	(7.0)	7.9	24.4
Gross profit growth	4.2	(13.5)	(4.5)	2.0	(5.3)	18.8	8.0	18.5	(3.0)	10.4	12.5
Operating profit growth	10.5	(30.2)	(4.9)	10.6	(9.3)	40.5	11.0	43.6	(4.2)	21.1	23.2
EBITDA growth	11.1	(22.7)	8.5	6.9	(5.1)	43.4	20.3	60.2	0.3	30.2	18.3
Pretax profit growth	(44.7)	1.6	11.8	27.5	59.3	8.4	3.1	16.5	2.5	15.1	25.4
Net profit growth	(56.5)	(0.9)	11.3	32.9	71.6	9.8	0.9	19.5	0.4	16.3	26.7

Source: Company data, KGI Research estimates

Balance sheet

NTSmn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total assets	3,908,878	4,133,974	3,939,789	4,086,691	4,450,240
Current assets	3,034,417	3,200,506	3,035,966	3,181,732	3,580,344
Cash & ST securities	1,110,661	1,084,732	1,350,230	1,375,363	1,341,619
Inventory	672,145	939,022	730,765	785,096	985,540
Accounts receivable	1,161,219	1,098,690	872,270	938,574	1,170,484
Other current assets	90,393	78,062	82,700	82,700	82,700
Non-current assets	874,461	933,469	903,823	904,959	869,896
LT investments	429,600	435,825	393,134	398,886	396,340
Net fixed assets	310,107	362,405	393,967	389,351	356,834
Other assets	134,754	135,239	116,722	116,722	116,722
Total liabilities	2,335,618	2,483,443	2,253,545	2,309,450	2,559,961
Current liabilities	1,997,680	2,113,814	1,909,335	1,952,587	2,184,984
Accounts payable	1,076,178	1,068,941	893,119	959,520	1,204,497
Interest bearing ST liabilities	608,958	647,194	648,993	613,643	577,860
Other current liabilities	312,544	397,678	367,222	379,424	402,627
Non-current liabilities	337,938	369,630	344,211	356,862	374,976
Long-term debt	275,600	301,017	271,625	284,277	302,391
Other L-T liabilities	44,121	51,151	55,874	55,874	55,874
Total equity	1,573,260	1,650,531	1,686,244	1,777,242	1,890,280
Share capital	138,630	138,630	138,630	138,630	138,630
Retained earnings reserve	871,193	925,890	987,704	1,065,902	1,164,940
Minority interests	192,803	199,986	193,135	205,935	219,935
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Growth					
Revenue growth	11.9%	10.6%	(7.0)%	7.9%	24.4%
Operating profit growth	34.4%	16.7%	(4.2)%	21.1%	23.2%
EBITDA growth	27.6%	11.5%	0.3%	30.2%	18.3%
Net profit growth	36.9%	1.6%	0.4%	16.3%	26.7%
EPS growth	36.9%	1.6%	0.4%	16.3%	26.7%
Profitability					
Gross profit margin	6.0%	6.0%	6.3%	6.4%	5.8%
Operating margin	2.5%	2.6%	2.7%	3.0%	3.0%
EBITDA margin	3.7%	3.8%	4.1%	4.9%	4.7%
Net profit margin	2.3%	2.1%	2.3%	2.5%	2.5%
Return on average assets	3.7%	3.5%	3.5%	4.1%	4.9%
Return on average equity	10.4%	10.0%	9.7%	10.8%	12.9%
Stability					
Gross debt to equity	56.2%	57.4%	54.6%	50.5%	46.6%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	9.8	6.4	3.9	5.1	6.2
Interest & ST debt coverage (x)	0.2	0.2	0.2	0.2	0.3
Cash flow interest coverage(x)	(4.5)	3.2	6.8	4.4	2.9
Cash flow/int. & ST debt (x)	(0.2)	0.2	0.6	0.4	0.2
Current ratio (x)	1.5	1.5	1.6	1.6	1.6
Quick ratio (x)	1.2	1.1	1.2	1.2	1.2
Net debt (NT\$mn)	(174,860)	(114,115)	(277,044)	(324,876)	(308,802)
Per share data					
EPS (NT\$)	10.05	10.21	10.25	11.92	15.10
CFPS (NT\$)	(7.09)	7.91	32.14	17.39	11.24
BVPS (NT\$)	99.58	104.63	107.70	113.35	120.49
Adj BVPS (NT\$)	99.59	104.65	107.72	113.35	120.49
SPS (NT\$)	432.43	478.09	444.56	479.61	596.48
EBITDA/share (NT\$)	16.19	18.05	18.10	23.56	27.87
Cash DPS (NT\$)	5.20	5.30	5.40	6.28	7.95
Activity					
Sales / avg assets	1.58	1.65	1.53	1.66	1.94
Days receivable	70.7	60.5	51.7	51.7	51.7
Days inventory	43.6	55.0	46.2	46.2	46.2
Days payable	69.7	62.7	56.5	56.5	56.5
Cash cycle	44.5	52.9	41.4	41.4	41.4

Source: Company data, KGI Research estimates

Profit & loss

NTSmn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue	5,994,174	6,626,997	6,162,221	6,648,793	8,268,977
Cost of goods sold	(5,632,047)	(6,226,912)	(5,774,274)	(6,220,571)	(7,787,424)
Gross profit	362,127	400,085	387,947	428,223	481,553
Operating expenses	(213,168)	(226,297)	(221,419)	(226,567)	(233,094)
Operating profit	148,959	173,788	166,528	201,655	248,459
Non-operating income	66,044	64,268	114,525	96,026	94,717
Interest income	32,456	43,303	81,700	76,526	74,717
Investment income	28,660	11,063	5,222	5,500	12,000
Other non-op income	4,928	9,902	27,603	14,000	8,000
Non-operating expenses	(21,432)	(50,544)	(88,829)	(76,488)	(65,781)
Interest expense	(21,958)	(34,736)	(65,543)	(54,188)	(53,781)
Investment loss	-	-	(18,952)	(10,500)	(8,000)
Other non-op expenses	527	(15,808)	(4,334)	(11,800)	(4,000)
Pre-tax profit	193,572	187,511	192,224	221,193	277,395
Current taxation	(39,749)	(36,440)	(37,435)	(43,133)	(54,092)
Minorities	(14,503)	(9,589)	(12,691)	(12,800)	(14,000)
Extraordinary items	-	0	(0)	-	-
Net profit	139,320	141,483	142,098	165,260	209,303
EBITDA	224,441	250,248	250,934	326,662	386,366
EPS (NT\$)	10.05	10.21	10.25	11.92	15.10

Cash flow

NTSmn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Operations cash flow	(98,212)	109,708	445,553	241,035	155,832
Net profit	139,320	141,483	142,098	165,260	209,303
Depreciation & amortisation	75,481	76,460	84,406	125,007	137,907
Decrease in working capital	(302,448)	(197,434)	247,995	(54,233)	(187,378)
Other operating cash flow	(10,565)	89,199	(28,946)	5,000	(4,000)
Investing cash flow	(92,083)	(45,440)	(137,874)	(131,143)	(98,844)
Sale of ST investment	(31,480)	29,944	(132,622)	-	-
New investments	(7,662)	(45,351)	23,845	(10,753)	6,546
Capital expenditure	(92,296)	(97,935)	(111,745)	(115,000)	(100,000)
Others investing cashflow	39,355	67,902	82,647	(5,390)	(5,390)
Free cash flow	(206,247)	(84,746)	349,020	112,716	45,148
Financing cash flow	24,281	(87,872)	(160,638)	(84,759)	(90,731)
Increase in short term debt	99,435	23,682	(74,237)	(40,000)	(40,000)
Increase in long term loans	28,293	7,242	27,361	17,301	22,331
New ordinary shares issued	5,000	(7,763)	4,805	-	-
Ordinary dividends paid	(58,745)	(79,026)	(80,722)	(74,860)	(87,062)
Other financing cashflow	(49,702)	(32,006)	(37,845)	12,800	14,000
Forex effects	(7,363)	26,512	(11,704)	-	-
Total cash generated	(173,377)	2,909	135,336	25,133	(33,743)

ROIC

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	3.6%	3.4%	3.6%	3.4%	2.8%
= Operating margin	2.5%	2.6%	2.7%	3.0%	3.0%
1 / (Working capital/revenue	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.1	0.1	0.1	0.1	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	6.9	6.4	7.4	7.6	8.2
Operating margin	2.5%	2.6%	2.7%	3.0%	3.0%
x Capital turnover	6.9	6.4	7.4	7.6	8.2
x (1 - tax rate)	79.5%	80.6%	80.5%	80.5%	80.5%
= After-tax ROIC	13.5%	13.5%	16.1%	18.6%	19.9%

Source: Company data, KGI Research estimates

Hon Hai – Recommendation & target price history


Date	Rating	Target	Price
2024-05-15	Outperform	205.0	170.5
2024-05-06	Outperform	205.0	167.5
2024-03-15	Outperform	164.0	132.0
2023-11-07	Outperform	126.0	96.1
2023-10-19	Outperform	140.0	103.5
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

Source: TEJ, KGI Research

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