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Hon Hai Precision (2317.TW)

Feb-23 Sales Declined Off From a Lifted Comp Base

CITI'S TAKE

Hon Hai's reported Feb-23 sales of NT\$402bn were -39% m-o-m/-12% y-o-y. While the sequential decline might seem counter-intuitive from a working days perspective, it was mainly driven by a lifted comp base in Jan-23 (+5% m-o-m/+48% y-o-y), when the company's Zhengzhou site resumed full production of iPhone/ramped up deliveries following the lockdowns in 4Q22. Combining Jan-23/Feb-23 sales together, the number still implies 18% y-o-y growth and reached c.73% of Citi/cons 1Q23E sales forecast. Mgmt. keeping its 1Q23E sales guidance unchanged (-26% q-o-q/+4% y-o-y) would suggest Mar-23 sales could trend down further on slow seasonality and product transitions. Hon Hai will be hosting its analyst meeting on 15 Mar; we expect growth outlook, margin trends, capacity relocation and EV to be the focus. The shares could be pressured by muted sales momentum, but we see limited downside as the company's strong manufacturing capability/vertical integration should ensure stable earnings.

Buy

Price (03 Mar 23 13:30)	NT\$102.50
Target price	NT\$140.00
Expected share price return	36.6%
Expected dividend yield	4.9%
Expected total return	41.5%
Market Cap	NT\$1,420,957 M
	US\$46,569M

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Earnings Summary

Year to 31 Dec	Net Profit (NT\$M)	Diluted EPS (NT\$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2020A	101,795	7.34	-11.7	14.0	1.1	8.0	3.9
2021A	139,320	10.05	36.9	10.2	1.0	10.4	5.1
2022E	139,723	10.08	0.3	10.2	0.8	9.0	4.9
2023E	161,284	11.64	15.4	8.8	0.8	9.2	5.7
2024E	178,757	12.90	10.8	7.9	0.7	9.6	6.3

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

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Hon Hai Precision

Valuation

Our target price of NT\$140 is based on 12x 2023E EPS. We believe our target PE is justified by the company's improving margins and profitability outlook, as well as new endeavors into EV, digital health and robotics. 12x is also in-line with the company's earnings CAGR of 12% in 2022-24E. Hon Hai has been able to generate positive earnings streams, and thus we believe a P/E valuation methodology is appropriate.

Risks

Downside risks that could impede the stock from reaching our target price include: 1) slower-than-expected iPhone demand; 2) intensified peer competition; 3) weaker-than-expected execution on new business progress; and 4) higher-than-expected impact of COVID-19.

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Hon Hai Precision (2317.TW)

Ratings and Target Price History
Fundamental Research

Analyst: Carrie Liu



	Date	Rating	Target Price	Closing Price
1	30-Mar-20 10:46:57	1	*110.00	70.00
2	15-May-20 10:19:48	1	*98.00	77.10
3	12-Aug-20 14:34:25	1	*110.00	81.40

	Date	Rating	Target Price	Closing Price
4	05-Jan-21 09:45:14	1	*130.00	104.00
5	30-Mar-21 14:18:52	1	*175.00	129.50
6	14-Nov-21 22:42:23	1	*170.00	109.00

	Date	Rating	Target Price	Closing Price
7	16-Mar-22 12:04:55	1	*146.00	101.50
8	10-Nov-22 18:12:05	1	*143.00	100.50
9	12-Dec-22 07:10:35	1	*140.00	102.00

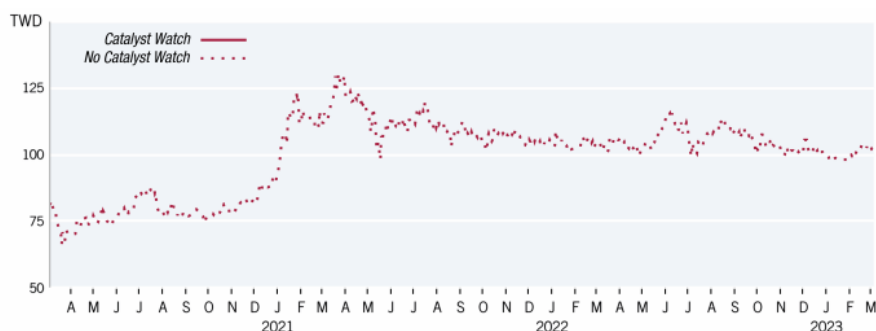
*Indicates Change

Rating/target price changes above reflect Eastern Time

Hon Hai Precision (2317.TW)

Catalyst Watch Research

Analyst: Carrie Liu



*Indicates Change

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