

## Hon Hai (2317.TW): 2M23 revenues +18% YoY, better than our / Bloomberg consensus 1Q23 revenues growth estimates

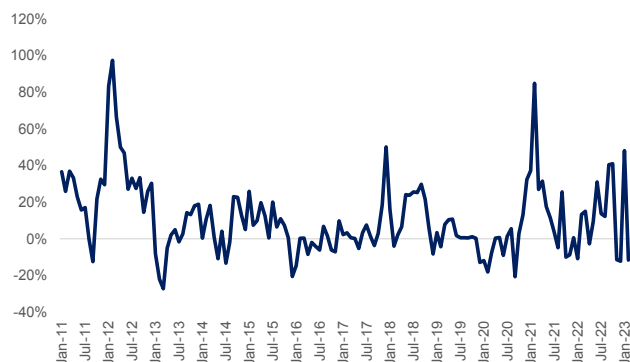
Feb revenues down 39% MoM (vs. down 21% MoM of Largan) given a higher base in Jan caused by the factory in Zhengzhou production recovery in Dec 2022 post COVID. 2M23 revenues was up 18% YoY (vs. -9% YoY of Largan), stronger than our / Bloomberg consensus estimates of 1Q23 revenues growth of +2% YoY / +4% YoY. By segments, consumer electronics at positive YoY in 2M23 given Zhengzhou factory production recovery; PC also at positive YoY in 2M23 given better components supply; Cloud / servers at flattish YoY in 2M23, and Components and others is slightly lower in 2M23 vs. 2M22 given end customers slower pull in.

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**Exhibit 1: Hon Hai monthly revenues YoY**



Source: Company data

1Q23 revenues guidance remained at mid single digit YoY, and we see the target as not hard to reach, considering 2M23 revenues growth at +18% YoY and better seasonality in Mar compared to Jan-Feb. If Mar revenues at the same level as Feb (+0% MoM vs. +28% MoM of avg. Mar growth in 2017-22), then 1Q23 revenues would be at +4% YoY, meeting the company's guidance.

**Earnings revision:** We factor in 4Q22 revenues and lift 1Q23E revenues to reflect Hon Hai's better than expected 2M23 revenues. We model 1Q23 revenues to grow at +6% YoY, similar to the company's guidance. We lift 2023-27E net income by 1-3% mainly on higher revenues, considering the company's continuous investments for its large customers across mainland China and India, better supporting its market share though we continue to expect a gradual market share loss through 2027E considering current dominant market share. Hon Hai invested US\$350m / US\$500m

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in India in 2021-22 and potential to invest US\$700m in India in 2023 ([link](#)). Its subsidiary FII established a new factory in Ganzhou China, aiming to start production in Mar 2023 ([link](#)) for smartphone precision parts.

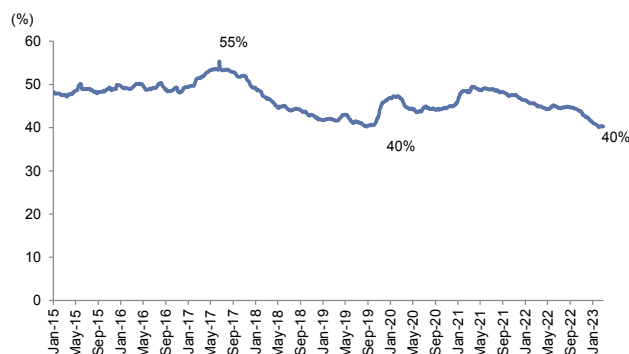
### Exhibit 2: Earnings revision

NT m	2022E			2023E			2024E			2025E			2026E			2027E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg	Old	New	Chg	Old	New	Chg	Old	New	Chg
Revenues	6,561,589	6,620,977	1%	6,591,659	6,981,695	6%	6,786,947	7,165,940	6%	6,906,723	7,266,258	5%	7,132,406	7,260,719	2%	7,330,508	7,584,939	3%
GP	405,522	405,730	0%	423,969	435,508	3%	466,754	471,292	1%	505,193	517,486	2%	557,840	559,296	0%	603,108	608,732	1%
OP	180,588	179,726	0%	196,709	205,705	5%	231,573	237,195	2%	270,364	284,966	5%	322,471	334,213	4%	361,201	373,598	3%
Net income	147,226	143,200	-3%	172,076	172,946	1%	195,028	198,378	2%	233,030	238,442	2%	252,713	259,437	3%	277,572	286,305	3%
EPS	10.44	10.15	-3%	12.19	12.25	1%	13.82	14.06	2%	16.51	16.90	2%	17.91	18.38	3%	19.67	20.29	3%
Margins																		
GM	6.2%	6.1%		6.4%	6.2%		6.9%	6.6%		7.3%	7.1%		7.8%	7.7%		8.2%	8.0%	
OPM	2.8%	2.7%		3.0%	2.9%		3.4%	3.3%		3.9%	3.9%		4.5%	4.6%		4.9%	4.9%	
NM	2.2%	2.2%		2.6%	2.5%		2.9%	2.8%		3.4%	3.3%		3.5%	3.6%		3.8%	3.8%	

Source: Goldman Sachs Global Investment Research

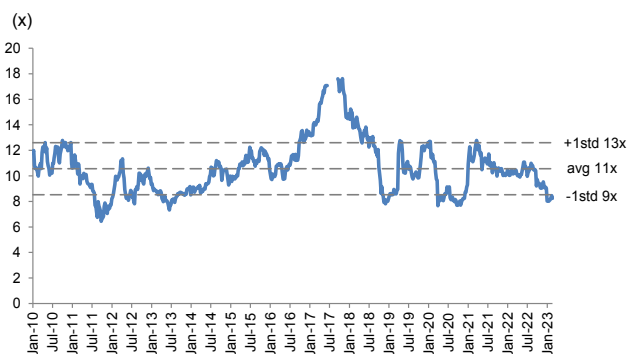
**Valuation:** We continue to use 2023E PE to derive target price. Our target PE multiple is unchanged at 11x, which is set in line with the company's historical trading average. With a higher 2023 EPS, our target price is slightly increased to NT\$135 (vs. NT\$134 previously). Maintain Buy.

### Exhibit 3: Hon Hai QFII holdings



Source: TEJ

### Exhibit 4: Hon Hai 12M forward PE ratio



Source: Bloomberg

**Key risks:** Weaker-than-expected technology products EMS; a higher-than-expected opex ratio; slower-than-expected ramp-up of the EV business, slower-than-expected EV total solution supply, but mainly in pure EV manufacturing, a slower-than-expected ramp-up of EV capacity globally, and differences in working culture and labor unions.

2317.TW	12m Price Target: <b>NT\$135.00</b>	Price: <b>NT\$102.50</b>	Upside: <b>31.7%</b>
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Buy		GS Forecast				
Market cap: NT\$1.4tr / \$47.2bn Enterprise value: NT\$1.5tr / \$47.3bn 3m ADTV: NT\$3.3bn / \$108.6mn Taiwan Greater China Technology M&A Rank: 3 Leases incl. in net debt & EV?: No			12/ 21	12/ 22E	12/ 23E	12/ 24E
		Revenue (NT\$ mn) New	5,994,173.9	6,620,976.6	6,981,694.8	7,165,940.3
		Revenue (NT\$ mn) Old	5,994,173.9	6,561,589.0	6,591,659.1	6,786,947.2
		EBITDA (NT\$ mn)	224,440.7	260,626.8	292,817.2	329,883.7
		EPS (NT\$) New	9.90	10.15	12.25	14.06
		EPS (NT\$) Old	9.90	10.44	12.19	13.82
		P/E (X)	11.3	10.1	8.4	7.3
		P/B (X)	1.1	1.0	0.9	0.8
		Dividend yield (%)	4.6	3.9	3.9	3.9
		CROCI (%)	13.5	12.9	13.6	14.2
			9/ 22	12/ 22E	3/ 23E	6/ 23E
		EPS (NT\$)	2.75	2.95	2.22	2.31

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3 Mar 2023 close.

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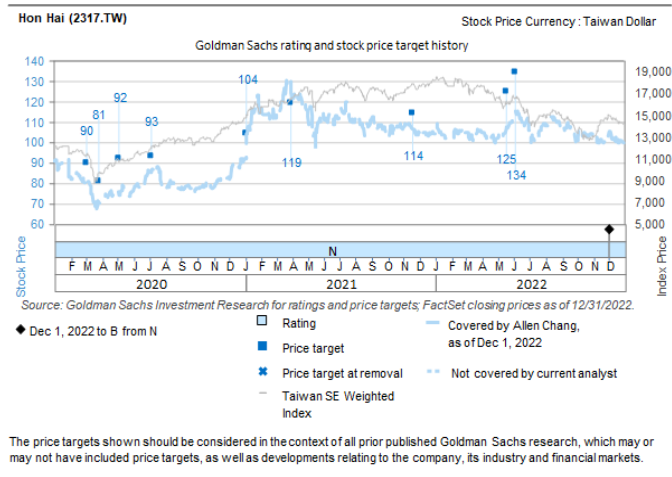
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