FIT Hon Teng (6088 HK)

3Q26: Profitability Under Pressure; Significant 2026 Operating Profit Guidance Cut

Highlights

- FIT's 3Q26 revenue grew 4.0% yoy to US$1,378m but operating profit declined 38.8% yoy to US$58m, impacted by higher material costs and slower-than-expected facility ramp-up. 9M26 revenue and net profit represented 69% and 32% of our full-year estimates respectively.
- Management guided down consumer interconnect revenue to a mid-20s percentage decline and cut its 2026 operating profit guidance from 70% yoy growth to flattish growth due to continued margin pressure and production ramp-up. It targets 2027 operating profit to grow faster than revenue, with official guidance to be announced in Mar 27.
- Maintain BUY but lower our target price from HK$9.19 to HK$4.20, based on a lower 2027F PE of 15.0x and lower earnings estimates. FIT trades at 10.4x 2027F PE, vs its 2021–26 historical mean of 15.1x.

3Q26 Results

Year to 31 Dec (US$m)	3Q26	3Q25	yoy	9M26	9M25	yoy
Revenue	**1,378**	**1,324**	**4.0%**	**3,873**	**3,629**	**6.7%**
Smartphone	199	210	-5.2%	575	575	0.0%
Cloud	303	215	40.9%	855	569	50.3%
Consumer interconnects	173	221	-21.7%	516	653	-21.0%
Auto mobility	218	240	-9.2%	649	700	-7.3%
System products	402	382	5.2%	1,078	971	11.0%
Others	83	61	36.1%	201	166	21.1%
Gross profit	**267**	**311**	**-14.3%**	**744**	**740**	**0.6%**
Operating profit	**58**	**94**	**-38.8%**	**135**	**142**	**-4.8%**
Net profit	**50**	**74**	**-32.7%**	**88**	**105**	**-15.6%**
Margins (%)						
Gross margin	19.4	23.5	-4.1ppt	19.2	20.4	-1.2ppt
Operating margin	4.2	7.1	-2.9ppt	3.5	3.9	-0.4ppt
Net margin	3.6	5.6	-2.0ppt	2.3	2.9	-0.6ppt

Source: FIT Hon Teng, UOB Kay Hian

Analysis

- **3Q26 results.** FIT Hon Teng's (FIT) 3Q26 revenue grew 4.0% yoy to US$1,378m, bringing 9M26 revenue to US$3,873m, or 68.5% of our full-year revenue estimate. Gross profit fell 14.3% yoy to US$267m in 3Q26, with gross margin narrowing 4.1ppt yoy to 19.4%. 3Q26 operating profit declined 38.8% yoy to US$58m, impacted by higher material costs, slower-than-expected facility ramp-up (particularly in Vietnam) and lower-than-expected cloud revenue. Stripping out the negative forex impact, 9M26 operating profit would have grown approximately 31% yoy.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	4,451	5,003	5,158	5,789	6,357
Gross profit	879	946	946	1,146	1,339
EBITDA	428	504	515	650	768
Operating profit	176	223	217	334	446
Net profit	154	156	165	255	343
Net profit (adj.)	154	156	165	255	343
EPS (cents)	2.2	2.2	2.3	3.6	4.8
P/E (x)	17.2	17.0	16.1	10.4	7.7
P/BV (x)	1.1	1.0	0.9	0.9	0.8
EV/EBITDA (x)	7.8	6.6	6.5	5.1	4.3
DPS (cent)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Net margin (%)	3.5	3.1	3.2	4.4	5.4
Net debt to equity (%)	19.6	30.1	21.0	12.6	3.4
Interest cover (x)	3.7	4.6	3.9	6.4	9.4
ROE (%)	6.3	6.1	6.0	8.6	10.5
Consensus	-	-	254	368	473
UOBKH/Consensus	-	-	0.65	0.69	0.72

Source: FIT Hon Teng, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$2.91
Target Price	HK$4.20
Upside	44.2%
Previous TP	HK$9.19

Stock Data

Sector	Electronics Components
Bloomberg ticker	6088 HK
Shares issued (m)	7,304
Market cap (HK$m)	21,254
Market cap (US$m)	2,725
3-mth avg daily t'over (US$m)	16.2

Price Performance (%)

52-week high/low				HK$10.89/HK$2.86
1mth	3mth	6mth	1yr	YTD
(42.0)	(50.6)	(64.3)	(47.1)	(41.2)

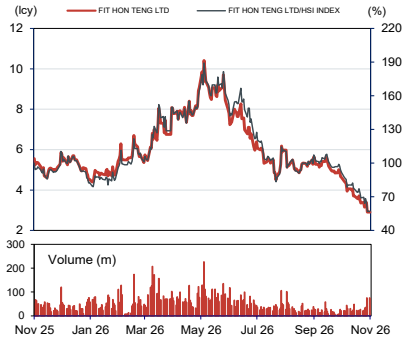
Major Shareholders (%)

Hon Hai	70.9
Lu Sung Ching	5.7

Balance Sheet Metrics

FY26 NAV/Share (US$)	0.40
FY26 Net Debt/Share (US$)	0.08

Price Chart



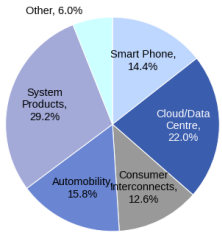
Source: Bloomberg

Company Description

FIT Hon Teng is a subsidiary of Hon Hai Technology Group (Foxconn) that manufactures and distributes electrical components. The company produces backplane connectors, memory cards, sockets, terminal blocks, and other products.

- **Cloud revenue growth hindered by lower-than-expected production yield.** Cloud revenue grew approximately 41% yoy to US$303m (22% of sales) in 3Q26, bringing 9M26 revenue to US$855m (up 50% yoy), below its previous guidance of a full-year 70% yoy revenue growth. Management attributed the shortfall to the product-generation transition and a longer-than-expected learning curve. The shipment schedule for its cable cartridges remains unchanged for end-26.
- **Optical product shipments to start in 4Q26.** Management expects shipments of 800G optical modules to commence in 4Q26 and sees optical connectivity as a key long-term growth driver. While optical, copper, power and liquid cooling solutions remain priorities, FIT expects further updates on next-generation optical interconnect projects with strategic partners in 6-9 months. Management maintains its target of cloud revenue contribution to reach mid-20% by end-26 and low-30% by 2028.
- **Mixed performance of non-AI segments.** Consumer interconnect revenue fell 21.7% yoy to US$173m in 3Q26, following a 28% decline in 2Q26. Management expects a mid-20s decline in 4Q26 and 2026 due to persistent memory and storage supply constraints and softer shipments. For the smartphone segment, it expects a mid-teens revenue decline in 4Q26 and flattish revenue in 2026.
- **Significant 2026 operating profit guidance cut from 70% growth to a flattish growth, due to slower new facility ramp-up, higher material costs and lower contribution from its high-margin AI-related products.** While it plans to announce official 2027 guidance in Mar 27, management targets operating profit to grow faster than its revenue, supported by its Vietnam facility ramp-up in 1H27 that will allow it to better capture AI earnings potential in 2H27.

3Q26 Revenue Breakdown (By Segment)



Source: FIT Hon Teng, UOB Kay Hian

Earnings Revision

- We lower our 2026–28 revenue forecasts by 9%/14%/17% to US$5,158m/US$5,789m/US$6,357m respectively to reflect weaker performance of its consumer interconnect business. We also lower 2026-28 net profit forecasts by 38%/37%/34% to US$165m/US$255m/US$343m respectively to factor in the margin pressure from heightened raw material costs and slower-than-expected production ramp-up.

Valuation/Recommendation

- **Maintain BUY but lower our target price to HK$4.20 from HK$9.19, based on a lower 2027F PE of 15.0x and lower earnings estimates.** It is now trading at 10.4x 2027F PE, vs its historical mean of 15.1x in 2021-26.

Profit & loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	**5,003**	**5,158**	**5,789**	**6,357**
Gross profit	946	946	1,146	1,339
EBITDA	504	515	650	768
Deprec. & amort.	(281)	(297)	(317)	(322)
EBIT	**223**	**217**	**334**	**446**
Total other non-op. income	63	60	60	60
Net interest income/(expense)	(48)	(56)	(52)	(48)
Pre-tax profit	**238**	**221**	**342**	**459**
Tax	(82)	(55)	(85)	(115)
Minorities	(1)	(1)	(1)	(1)
Net profit	**156**	**165**	**255**	**343**
Net profit (adj.)	156	165	255	343

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	1,382	1,439	1,472	1,497
Other LT assets	1,102	1,058	1,018	982
Cash/ST investment	1,067	1,257	1,453	1,714
Other current assets	2,379	2,365	2,511	2,722
Total assets	**5,930**	**6,119**	**6,454**	**6,915**
ST debt	1,200	1,200	1,200	1,200
Other current liabilities	1,318	1,358	1,451	1,579
LT debt	675	657	643	632
Other LT liabilities	51	51	51	51
Shareholders' equity	2,686	2,852	3,108	3,452
Minority interest	11	11	12	14
Total liabilities & equity	**5,930**	**6,119**	**6,454**	**6,915**

Cash flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	**267**	**573**	**572**	**630**
Pre-tax profit	238	221	342	459
Tax	(82)	(55)	(85)	(115)
Deprec. & amort.	(281)	(297)	(317)	(322)
Working capital changes	(236)	54	(53)	(84)
Other operating cashflows	627	651	686	691
Investing	**(483)**	**(289)**	**(285)**	**(282)**
Capex (growth)	(410)	(300)	(300)	(300)
Others	(73)	11	15	18
Financing	**109**	**(95)**	**(90)**	**(87)**
Dividend payments	-	-	-	-
Proceeds from borrowings	9,684	8,000	8,000	8,000
Loan repayment	(9,482)	(8,000)	(8,000)	(8,000)
Others/interest paid	(93)	(95)	(90)	(87)
Net cash inflow (outflow)	**(107)**	**189**	**196**	**261**
Beginning cash & cash equiv.	1,113	1,035	1,224	1,421
Changes due to forex impact	29	-	-	-
Ending cash & cash equiv.	**1,035**	**1,224**	**1,421**	**1,682**

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	18.9	18.3	19.8	21.1
Pre-tax margin	4.8	4.3	5.9	7.2
Net margin	3.1	3.2	4.4	5.4
ROA	2.7	2.7	4.1	5.1
ROE	6.1	6.0	8.6	10.5
Growth (% yoy)				
Turnover	12.4	3.1	12.2	9.8
EBITDA	7.6	0.1	21.1	16.8
Pre-tax profit	8.0	(7.3)	54.7	34.3
Net profit	1.5	5.7	54.7	34.3
Net profit (adj.)	1.5	5.7	54.7	34.3
EPS	1.4	5.4	54.7	34.3
Leverage				
Debt to total capital	31.6	30.3	28.6	26.5
Debt to equity	69.8	65.1	59.3	53.1
Net debt/(cash) to equity	30.1	21.0	12.6	3.4
Interest cover (x)	4.6	3.9	6.4	9.4

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