UOBKayHian

Company – Results | Greater China

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Foxconn Industrial Internet (601138 CH)

2Q26: Results Largely In Line; AI Business Retains Robust Growth

Highlights

- 2Q26 earnings grew 91.0% yoy and 24.1% qoq to Rmb13.1b, which is 1.7% below consensus estimates but in line with our expectations and profit guidance.
- Cloud computing remains the key growth engine with 1H26 revenue up 75.7% yoy. GPU AI racks, ASIC AI racks, and ASIC CPU racks all registered multiple times yoy growth during the period.
- Maintain BUY with an unchanged target price of Rmb89.50.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26	yoy%	qoq%
Revenue	200,345	251,078	306,783	53.1	22.2
Gross Profit	13,022	18,456	21,435	64.6	16.1
OP Profit	8,404	13,978	17,016	102.5	21.7
Net Profit	6,883	10,595	13,146	91.0	24.1
Core net profit	6,765	10,250	12,735	88.2	24.2
Margins (%)					
GPM	6.5	7.4	7.0	0.5	(0.4)
OPM	4.2	5.6	5.5	1.4	(0.0)
NPM	3.4	4.2	4.3	0.8	0.1

Source: FII, UOB Kay Hian

Analysis

- **2Q26 revenue in line with consensus, but a slight miss on gross margin.** Foxconn Industrial Internet's (FII) 2Q26 revenue rose 53.1% yoy and 22.2% qoq to Rmb307b, which is in line with consensus estimates. Gross margin expanded 0.5ppt yoy but declined 0.4ppt qoq, which is a slight miss vs consensus expectation at 7.3% likely due to an elevated component cost. Net profit expanded 91.0% yoy and 24.1% qoq to Rmb13.1b (vs guidance of Rmb12.8b-13.8b), which is 1.7% below consensus estimates due to worse-than-expected forex losses; however, do note that this should be largely in line with our estimate of around Rmb13b.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	609,135	902,887	1,534,532	2,038,466	2,272,045
EBITDA	33,432	52,470	79,994	95,972	102,191
Operating profit	26,836	44,001	71,543	86,886	92,303
Net profit (rep./act.)	23,216	35,286	61,151	75,057	80,223
Net profit (adj.)	23,414	34,001	61,151	75,057	80,223
EPS (Fen)	117.8	171.2	307.9	378.0	404.0
PE (x)	56.0	38.6	20.8	16.9	15.8
P/B (x)	8.6	7.9	6.1	5.1	4.4
EV/EBITDA (x)	42.9	27.3	17.4	14.5	13.6
Dividend yield (%)	1.0	1.5	2.7	3.3	3.5
Net margin (%)	4.4	3.8	3.9	4.0	3.7
Net debt/(cash) to equity (%)	(23.9)	(3.5)	9.0	(2.2)	(8.1)
Interest cover (x)	51.0	(31.4)	(22.4)	(27.8)	(32.7)
ROE (%)	15.9	22.1	32.6	32.8	29.8
Consensus net profit	-	-	60,748	81,629	104,502
UOBKH/Consensus (x)	-	-	1.01	0.92	0.77

Source: FII, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rmb66.10
Target Price	Rmb89.50
Upside	+35.59%

Stock Data

Sector	EMS/ODM
Bloomberg ticker	601138 CH
Shares issued (m)	19,859
Market cap (Rmbm)	1,310,923
Market cap (US$m)	184,637
3-mth avg daily t'over (US$m)	1,548.6

Price Performance (%)

52-week high/low: Rmb84.95/Rmb35.10

1mth	3mth	6mth	1yr	YTD
(0.4)	0.3	19.6	81.6	6.4

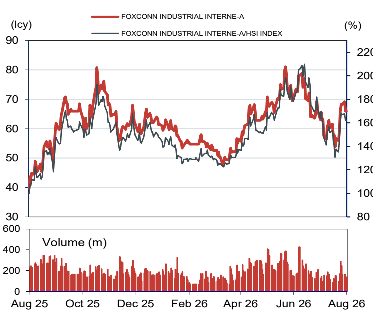
Major Shareholders (%)

Futaihua Industry Shenzhen	21.98

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	10.21
FY26 Net Debt/Share (Rmb)	0.95

Price Chart



Source: Bloomberg

Company Description

Foxconn Industrial Internet operates as a communication network equipment development company. It develops and sells network switches, routers, wireless devices, webservers, set top boxes, smart home gateways, and other products. The company also manufactures storage equipment.

- **Cloud computing revenue grew 75.7% yoy in 1H26 and remains the core growth engine.** Management attributes the growth to surging AI compute demand and customer share gains. Within cloud computing, AI server revenue from cloud service providers rose 2.3x yoy, GPU AI rack shipments surged 3.2x yoy, ASIC AI rack shipments expanded 3x and ASIC CPU server shipments grew 2.5x. In communications and networking, data centre high-speed networking revenue doubled yoy, 800G-plus switch and SuperNIC shipments each rose 140%, and CPO all-optical switch prototypes shipped. Precision components stayed resilient on flagship smartphone shipments and the AI-phone upgrade cycle.

Valuation/Recommendation

- **Maintain BUY and keep target price at Rmb89.50.** We are rolling over to our 2027 estimates, and adjust our PE multiple to 23.7x, now pegged to 2SD above historical average mean.

Earnings Revision/Risk

- We fine-tune our 2026-28 assumptions, with our revenue forecasts adjusted by -0.5%/+8.7%/+9.8% to Rmb1,545b/Rmb2,038b/Rmb2,272b respectively. Our 2026-28 net profit estimates are adjusted by flat/+3.7%/+3.4% to Rmb61b/Rmb75b/Rmb80b respectively. We have factored in a much higher NVL72 rack ASP given the surge in component costs, particularly in memory/PCB/CPU/substrates, which would lead to lower blended margins as ODM's dollar content is unaffected by server ASP ie assembly fee remains fixed. This is however partially offset by FII's sustained content gain in server components such as liquid cooling, server chassis, power supply etc, as well as a higher consignment mix going forward.

Share Price Catalyst

- **Ramp-up of Vera Rubin rack shipments throughout 3Q-4Q26.** Nvidia's Vera Rubin platform moved into mass production in 3Q26, with the company confirming in July that systems have been delivered to, and are being deployed by all of its major customers; the rack-level ramp should step up further in 4Q26. As one of the platform's key rack-level ODM partners, FII should see cloud service equipment revenue accelerate sequentially into 4Q26, on top of continued ASIC AI rack and 800G-plus networking momentum. We expect the AI data centre buildout to remain strong in 2027, with hyperscaler capex guidance and further design wins at cloud service providers as the near-term catalysts.

Changes to 2026-28 estimates

Year to 31 Dec	-------------- Old Estimates ---------			----------- New Estimates -----------			------ Differences (%) ------		
(Rmbm)	2026	2027	2028	2026F	2027F	2028F	2026F	2027F	2028F
Revenue	1,541,515	1,875,953	2,069,450	1,534,532	2,038,466	2,272,045	(0.5)	8.7	9.8
Communication and network Equipment	290,057	297,253	300,937	290,057	297,253	300,937	-	-	-
Cloud Service Equipment	1,249,687	1,576,829	1,766,643	1,242,704	1,739,342	1,969,237	(0.6)	10.3	11.5
Robots and Technology Service	850	950	950	850	950	950	-	-	-
Gross margin	6.1	5.8	5.6	6.0	5.4	5.1	(0.1)	(0.4)	(0.5)
Communication and network Equipment	9.8	10.2	9.6	9.8	10.2	9.6	-	-	-
Cloud Service Equipment	5.2	4.9	4.9	5.1	4.5	4.4	(0.1)	(0.4)	(0.5)
Robots and Technology Service	45.0	45.0	45.0	45.0	45.0	45.0	-	-	-
Operating profit	71,550	83,669	89,121	71,543	86,886	92,303	(0.0)	3.8	3.6
Net profit	61,147	72,347	77,568	61,151	75,057	80,223	0.0	3.7	3.4

Source: FII, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	902,887	1,534,532	2,038,466	2,272,045
EBITDA	52,470	79,994	95,972	102,191
Deprec. & amort.	(8,469)	(8,451)	(9,087)	(9,888)
EBIT	44,001	71,543	86,886	92,303
Total other non-op. income	(1,285)	-	-	-
Associate contributions	-	-	-	-
Net interest income/(expense)	(1,673)	(3,564)	(3,448)	(3,122)
Pre-tax profit	41,042	67,980	83,438	89,182
Tax	(5,713)	(6,798)	(8,344)	(8,918)
Minorities	(44)	(31)	(38)	(40)
Net profit	35,286	61,151	75,057	80,223
Net profit (adj.)	34,001	61,151	75,057	80,223

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	24,037	24,558	24,538	23,977
Other LT assets	29,393	22,628	20,993	19,097
Cash/ST investment	94,759	85,383	109,725	127,491
Other current assets	308,034	525,270	545,208	642,552
Total assets	456,224	657,839	700,464	813,118
ST debt	104,229	104,229	104,229	104,229
Other current liabilities	176,170	336,054	337,293	411,059
LT debt	4	4	4	4
Other LT liabilities	8,707	8,707	8,707	8,707
Shareholders' equity	166,778	208,478	249,826	288,676
Minority interest	336	367	404	444
Total liabilities & equity	456,224	657,839	700,464	813,118

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	5,238	21,160	68,930	69,694
Pre-tax profit	41,042	67,980	83,438	89,182
Tax	(5,713)	(6,798)	(8,344)	(8,918)
Deprec. & amort.	8,469	8,451	9,087	9,888
Associates	-	-	-	-
Working capital changes	(43,942)	(72,617)	(18,699)	(23,579)
Non-cash items	5,381	24,145	3,448	3,122
Other operating cashflows	2,584	20,581	-	-
Investing	(29,746)	(7,522)	(7,432)	(7,432)
Capex (growth)	(17,230)	(7,522)	(7,432)	(7,432)
Investment	(13,456)	-	-	-
Proceeds from sale of assets	785	-	-	-
Others	155	-	-	-
Financing	47,397	(23,015)	(37,157)	(44,496)
Dividend payments	(16,740)	(23,015)	(37,157)	(44,496)
Issue of shares	-	-	-	-
Proceeds from borrowings	106,204	135,000	135,000	135,000
Loan repayment	(39,780)	(135,000)	(135,000)	(135,000)
Others/interest paid	(2,287)	-	-	-
Net cash inflow (outflow)	22,888	(9,376)	24,342	17,767
Beginning cash & cash equiv.	72,311	94,759	85,383	109,725
Changes due to forex impact	(440)	-	-	-
Ending cash & cash equiv.	94,759	85,383	109,725	127,491

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	7.0	6.0	5.4	5.1
Pre-tax margin	4.5	4.4	4.1	3.9
Net margin	3.9	4.0	3.7	3.5
ROA	9.1	11.0	11.1	10.6
ROE	22.1	32.6	32.8	29.8
Growth (% yoy)				
Turnover	48.2	70.0	32.8	11.5
EBITDA	42.1	46.7	18.2	6.2
Pre-tax profit	58.0	65.6	22.7	6.9
Net profit	52.0	73.3	22.7	6.9
Net profit (adj.)	45.2	79.9	22.7	6.9
EPS	52.1	73.3	22.7	6.9
Leverage				
Debt to total capital	1.2	0.9	0.8	0.7
Debt to equity	3.4	2.7	2.2	1.9
Net debt/(cash) to equity	(3.5)	9.0	(2.2)	(8.1)
Interest cover (x)	(31.4)	(22.4)	(27.8)	(32.7)