Foxconn Industrial Internet (601138 CH)

Post-Results Call: Vera Rubin On Track; Visibility Now Extends Into 2027

Highlights

- Vera Rubin enters pre-production preparation in 3Q26 with first shipments in 4Q26, becoming the mainstay platform through 2027, while GB300 bridges the transition and AI server order visibility now extends into 2027.
- Supply constraints have widened to include substrates and wafers alongside CoWoS but have not yet affected shipments, while the ASIC mix continues to rise and NeoCloud is emerging as a second demand pool. Maintain BUY. Target price: Rmb89.50.

Analysis

- **Vera Rubin ramp reiterated, content value per rack expanding.** The known production ramp timeline for Vera Rubin remains unchanged at "pre-production preparation in 3Q26, first shipments in 4Q26 and ramp through coming quarters to be the key product line for 2027" Management also stated that the complex rack level design, higher requirement for liquid cooling, power supply, system integration and testing are bolstering Foxconn Industrial Internet's (FII) dollar content per rack, and this is expected to further accelerate content growth going forward as AIDC racks become more complex in the next few years.
- **Supply constraints have widened but are still not binding.** Beyond chip supply and CoWoS capacity, management named substrates and wafers as constrained for the next-generation rack. It has not yet observed component tightness materially affecting shipments, citing strong AI demand and firm customer data centre build plans, and expects the constraints to ease progressively as capacity expands.
- **AI server order visibility now extends into 2027.** Management sees visibility extending well into 2027 with orders constantly increasing, with both training and inferencing workloads as major drivers. They highlighted that top global CSP capex is expected to exceed US$900b in 2026, with all top CSPs signalling further expansion in 2027 in recent results briefing despite a peak-level capex spend in 2026.
- **NeoCloud is emerging as a new growth driver.** Management flagged the rapid expansion of NeoClouds such as CoreWeave and Lambda, citing CoreWeave's US$66.8b backlog, and pointed to Synergy Research's forecast of a NeoCloud market approaching US$400b by 2030 at a 58% CAGR. FII is targeting NeoCloud and sovereign cloud as new customer groups and notes that the AI investment trend has expanded from being more US-specific to becoming global in scale.

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)	54.3	37.4	20.8	16.9	15.8
P/B (x)	8.3	7.6	6.1	5.1	4.4
EV/EBITDA (x)	41.7	26.6	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	-	-	61,190	82,319	104,803
UOBKH/Consensus (x)	-	-	1.00	0.91	0.77

Source: FII, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rmb60.15
Target Price	Rmb89.50
Upside	+48.79%

Stock Data

Sector	EMS/ODM
Bloomberg ticker	601138 CH
Shares issued (m)	19,859
Market cap (Rmbm)	1,194,547
Market cap (US$m)	168,146
3-mth avg daily t'over (US$m)	1,649.8

Price Performance (%)

52-week high/low: Rmb84.95/Rmb44.22

1mth	3mth	6mth	1yr	YTD
(0.2)	(14.4)	4.8	25.3	(3.1)

Major Shareholders (%)

Futaihua Industry Shenzhen	21.99

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.

Valuation/Recommendation

- **Maintain BUY with a target price of Rmb89.50,** based on 23.7x 2027F PE, pegged to 2SD above the historical average mean.

Earnings Revision/Risk

- **Earnings revision:** None.

Share Price Catalyst

- None.

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)