

Foxconn Industrial Internet (601138 CH)

3Q26: Sustained AI infrastructure demand drives earnings beat

Highlights

- Robust cloud-computing demand and a broadening network-product mix supported better-than-expected revenue and earnings.
- Maintain BUY with a target price of Rmb77.60.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q26	3Q26	yoy%	qoq%
Revenue	243,172	306,783	383,554	57.7	25.0
Gross Profit	17,020	21,435	26,819	57.6	25.1
OP Profit	12,763	17,016	20,862	63.5	22.6
Net Profit	10,373	13,146	16,634	60.4	26.5
Core net profit	9,989	12,735	16,465	64.8	29.3
Margins (%)					
GPM	7.0	7.0	7.0	0.0	0.0
OPM	5.2	5.5	5.4	0.2	(0.1)
NPM	4.3	4.3	4.3	0.1	0.1

Source: FII, UOB Kay Hian

Analysis

- Revenue strength drove earnings beat.** Driven by sustained AI compute demand and rising share at its key customers, Foxconn Industrial Internet's (FII) revenue rose 57.7% yoy and 25.0% qoq to Rmb383.6b, 6.6% above consensus but 10% below our estimate primarily due to differences in its product mix. Gross margin was flat yoy and qoq at 7.0%, in line with consensus but above our estimate due to the aforementioned mix differences. The operating expense ratio ended up slightly above our forecast due to the lower operating leverage, but it was more than offset by the robust gross margins. As a result, net profit rose 60.4% yoy and 26.5% qoq to Rmb16,634m, largely in line with our and consensus estimates.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	609,135	902,887	1,440,241	1,906,409	2,122,869
EBITDA	33,432	52,470	82,761	103,563	111,197
Operating profit	26,836	44,001	74,310	94,476	101,309
Net profit (rep./act.)	23,216	35,286	61,777	82,123	88,663
Net profit (adj.)	23,414	34,001	60,088	82,123	88,663
EPS (Fen)	117.8	171.2	302.6	413.5	446.5
PE (x)	38.4	26.4	14.9	10.9	10.1
P/B (x)	5.9	5.4	4.3	3.5	3.0
EV/EBITDA (x)	30.6	19.5	12.3	9.9	9.2
Dividend yield (%)	1.4	2.2	3.8	5.0	5.4
Net margin (%)	4.4	3.8	3.9	4.3	4.3
Net debt/(cash) to equity (%)	(23.9)	(3.5)	(0.0)	(8.1)	(18.8)
Interest cover (x)	51.0	(31.4)	(21.0)	(32.5)	(40.5)
ROE (%)	15.9	22.1	32.9	35.2	31.8
Consensus net profit	-	-	61,477	83,478	107,470
UOBKH/Consensus (x)	-	-	1.00	0.98	0.82

Source: FII, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rmb45.22
Target Price	Rmb77.60
Upside	+71.6%
Previous TP	Rmb89.50

Stock Data

Sector	EMS/ODM
Bloomberg ticker	601138 CH
Shares issued (m)	19,844
Market cap (Rmbm)	897,350
Market cap (US\$m)	133,640
3-mth avg daily t'over (US\$m)	943.7

Price Performance (%)

52-week high/low			Rmb84.95/Rmb45.13	
1mth	3mth	6mth	1yr	YTD
(22.6)	(21.7)	(31.8)	(44.0)	(27.1)

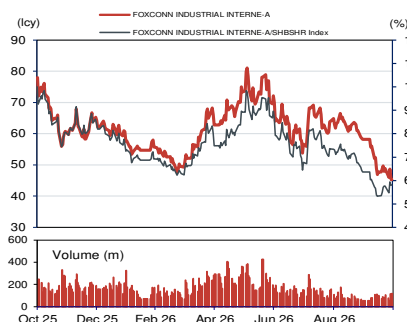
Major Shareholders (%)

Futaihua Industry Shenzhen	21.99
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Balance Sheet Metrics

FY26 NAV/Share (Rmb)	10.24
FY26 Net Debt/Share (Rmb)	0.00

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, web servers, set top boxes, smart home gateways, and other products. The company also manufactures storage equipment.

- **Cloud computing remained the main driver.** Cloud-computing revenue grew 75% yoy and 25% qoq. AI application specific integrated circuit server shipments rose 150% yoy and 80% qoq, while AI graphics processing unit rack shipments increased 70% yoy and 15% qoq. New-generation AI racks also began shipping, with management stating that their market share is greater than that of the previous generation.
- **Networking growth broadened AI exposure.** Network-equipment revenue increased 120% yoy and 25% qoq, supported by product-mix improvement and rising AI-related shipments. Shipments of 800G and faster switches grew 80% yoy and 25% qoq, including multi-chip Ethernet switches, co-packaged optics switches, NVLink switches and SuperNICs.

Valuation/Recommendation

- **Maintain BUY but cut target price to Rmb77.60**, based on a lower 18.8x 2027F PE, which is pegged to 1SD above the historical mean. We lowered our PE multiple given the significantly worsened market environment in China.

Earnings Revision/Risk

- **We raised our 2026-28 earnings estimates by 1.0%/9.4%/10.5% respectively** to Rmb61,777m/Rmb82,123m/Rmb88,663m, as we factor in: a) a higher consignment mix on AI servers, b) better margins for AI server products in general, and c) slightly lower telco equipment margins.

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	1,534,532	2,038,466	2,272,045	1,440,241	1,906,409	2,122,869	(6.1)	(6.5)	(6.6)
Communication and network Equipment	290,057	297,253	300,937	290,057	297,253	300,937	(0.0)	0.0	(0.0)
Cloud Service Equipment	1,242,704	1,739,342	1,969,237	1,148,414	1,607,285	1,820,062	(7.6)	(7.6)	(7.6)
Robots and Technology Service	850	950	950	850	950	950	-	-	-
Gross margin	6.0	5.4	5.1	6.8	6.6	6.4	0.8	1.2	1.3
Communication and network Equipment	9.8	10.2	9.6	9.8	9.8	9.6	(0.0)	(0.4)	(0.0)
Cloud Service Equipment	5.1	4.5	4.4	6.1	6.0	5.8	1.0	1.5	1.4
Robots and Technology Service	45.0	45.0	45.0	45.0	45.0	45.0	-	-	-
Operating profit	71,543	86,886	92,303	74,310	94,476	101,309	3.9	8.7	9.8
Net profit	61,151	75,057	80,223	61,777	82,123	88,663	1.0	9.4	10.5

Source: FII, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	902,887	1,440,241	1,906,409	2,122,869
EBITDA	52,470	82,761	103,563	111,197
Deprec. & amort.	(8,469)	(8,451)	(9,087)	(9,888)
EBIT	44,001	74,310	94,476	101,309
Total other non-op. income	(1,285)	(1,689)	-	-
Associate contributions	-	-	-	-
Net interest income/(expense)	(1,673)	(3,945)	(3,182)	(2,746)
Pre-tax profit	41,042	68,676	91,294	98,563
Tax	(5,713)	(6,868)	(9,129)	(9,856)
Minorities	(44)	(31)	(41)	(44)
Net profit	35,286	61,777	82,123	88,663
Net profit (adj.)	34,001	60,088	82,123	88,663

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	5,238	40,481	65,399	90,995
Pre-tax profit	41,042	68,676	91,294	98,563
Tax	(5,713)	(6,868)	(9,129)	(9,856)
Deprec. & amort.	8,469	8,451	9,087	9,888
Associates	-	-	-	-
Working capital changes	(43,942)	(55,993)	(29,034)	(10,346)
Non-cash items	5,381	26,216	3,182	2,746
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	(23,396)	(37,236)	(48,015)
Dividend payments	(16,740)	(23,396)	(37,236)	(48,015)
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	9,564	20,731	35,548
Beginning cash & cash equiv.	72,311	94,759	104,323	125,054
Changes due to forex impact	(440)	-	-	-
Ending cash & cash equiv.	94,759	104,323	125,054	160,601

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	104,323	125,054	160,601
Other current assets	308,034	475,418	523,143	582,964
Total assets	456,224	626,927	693,728	786,640
ST debt	104,229	104,229	104,229	104,229
Other current liabilities	176,170	302,827	321,517	370,992
LT debt	4	4	4	4
Other LT liabilities	8,707	8,707	8,707	8,707
Shareholders' equity	166,778	209,104	257,174	300,567
Minority interest	336	367	408	452
Total liabilities & equity	456,224	625,238	692,039	784,951

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	7.0	6.8	6.6	6.4
Pre-tax margin	4.5	4.8	4.8	4.6
Net margin	3.9	4.3	4.3	4.2
ROA	9.1	11.4	12.4	12.0
ROE	22.1	32.9	35.2	31.8
Growth (% yoy)				
Turnover	48.2	59.5	32.4	11.4
Gross profit	42.1	56.5	27.1	8.3
Pre-tax profit	58.0	67.3	32.9	8.0
Net profit	52.0	75.1	32.9	8.0
Net profit (adj.)	45.2	76.7	36.7	8.0
EPS	52.1	75.1	32.9	8.0
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)	(0.0)	(8.1)	(18.8)
Interest cover (x)	(31.4)	(21.0)	(32.5)	(40.5)

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