

Foxconn Industrial Internet (601138 CH)

Read Across From 2Q26 Hon Hai Precision Earnings Call

Highlights

- Guidance remains solid, driven by sustained AI infrastructure investments, alongside a seasonal rebound in ICT and consumer electronics.
- Mass production for Vera Rubin and silicon photonics CPO switches are on track to commence in 3Q26, with the primary near-term supply chain bottlenecks being chip supply and advanced packaging capacity.

Analysis

- Cloud business guidance remains robust for the rest of 2026**, with AI rack shipments in 3Q26 expected to expand in high double digits qoq and more than double for 2026. General-purpose servers are forecast to deliver double-digit yoy revenue growth in 2H26, fuelled by strengthening CPU demand for Agentic AI deployments.
- Vera Rubin mass production in 3Q26 is on track**, with initial shipments starting in 4Q26 before scaling progressively throughout 2027 as the core growth engine. Management targets a 50% market share, with primary near-term supply chain bottlenecks being chip supply and TSMC CoWoS advanced packaging capacity. Sustained demand for the Grace Blackwell platform remains strong in the near term and should persist into 2027 to bridge the VR ramp.
- CPO switches for scale-out applications have commenced shipments**, with scale-up deployments scheduled for future rollout. Silicon photonics CPO switches are expected to enter mass production in 3Q26, with full-year shipments guided to reach 10,000 units, and result in high-speed networking revenue (800G+ switches) doubling yoy in 2026.
- Increased adoption of consignment procurement model expected to ease gross margin pressure**. While ASIC server projects are mostly consignment based, they only accounted for 10% of total server revenue last year. Management actively aims to expand consignment structures across GPU servers and targets a >40% market share in ASIC projects over the medium term, and expects ASIC servers to make up to 40% of total AI server shipment by 2030, compared with 28% now.
- Smart consumer electronics is expected to register solid revenue growth both yoy and qoq in 3Q26, driven by seasonality and higher product prices.

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)	55.7	38.3	20.8	16.9	15.8
P/B (x)	8.5	7.8	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	Rmb65.60
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

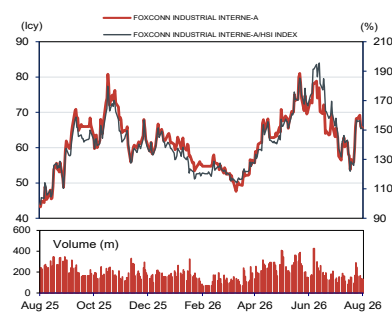
Major Shareholders (%)

Futaihua Industry Shenzhen	21.99
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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, web servers, 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 historical average mean.

Earnings Revision/Risk

- None.

Share Price Catalyst

- None.
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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

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

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

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)

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