# 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 |

### 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, b**ased on 23.7x 2027F PE, pegged to 2SD above historical average mean.

## Earnings Revision/Risk

- 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) |