Foxconn Industrial Internet (601138 CH)

Takeaways From 3Q26 Hon Hai Precision Earnings Call

Highlights

- Cloud and networking should sustain strong growth, supported by AI-rack share gains, robust CSP capex and additional NeoCloud customers.
- Rapid ASIC growth, consignment and higher vertically integrated content should support gross margin, capital efficiency and long-term earnings quality.
- Maintain BUY with a target price of Rmb77.60.

Analysis

- **Cloud & networking remains the core growth driver.** 3Q26 performance exceeded management's already optimistic expectations, underpinned by strong AI-server demand and shipments of new-generation AI racks. Management expects momentum to extend into 4Q26, with AI-rack shipments delivering high double-digit qoq growth and general-server revenue growing moderately. For 2027, AI-rack shipments should maintain high double-digit growth, with further NeoCloud customer additions driving market share gains.
- **ASIC growth should support higher value-added and capital efficiency.** Many ASIC servers use a consignment model, under which customers provide the chips. As their value is excluded from both revenue and cost of goods sold, reported revenue is lower while gross margin is higher. ASIC servers also demand for greater customisation across system architecture, motherboards, power, liquid cooling and high-speed interconnects allowing Hon Hai to increase component content through vertical integration. In 3Q26, ASIC AI-server shipments rose 150% yoy, outpacing the 70% yoy growth in GPU AI servers, with their ASIC servers' share of AI-server shipments expected to rise from 27.8% in 2026 to 40% by 2030.
- **Management remains cautiously optimistic on 2027,** despite strong AI-server demand and order visibility. Key concerns include continued chip and memory shortages across the broader supply chain, as well as macroeconomic uncertainty and geopolitical and policy risks.

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)	36.8	25.3	14.3	10.5	9.7
P/B (x)	5.6	5.2	4.1	3.3	2.9
EV/EBITDA (x)	29.4	18.8	11.9	9.5	8.9
Dividend yield (%)	1.5	2.3	4.0	5.3	5.7
Net margin (%)	3.8	3.9	4.3	4.3	4.2
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	Rmb43.35
Target Price	Rmb77.60
Upside	+79.0%
Previous TP	Rmb77.60

Stock Data

Sector	EMS/ODM
Bloomberg ticker	601138 CH
Shares issued (m)	19,844
Market cap (Rmbm)	860,241
Market cap (US$m)	128,062
3-mth avg daily t'over (US$m)	821.1

Price Performance (%)

52-week high/low				Rmb84.95/Rmb40.52
1mth	3mth	6mth	1yr	YTD
(16.7)	(33.9)	(32.7)	(36.8)	(30.1)

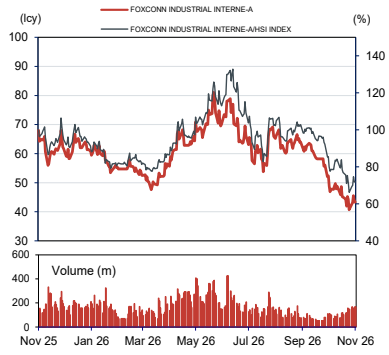
Major Shareholders (%)

Futaihua Industry Shenzhen	21.99

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

- **The US midterm election should have limited near-term impact,** although longer-term uncertainty remains. Data-center orders have already been placed, and customers could accelerate deployments to secure computing capacity. Management expects limited near-term disruption while long-term implications remain uncertain.
- **Data-center site readiness is emerging as the key constraint on AI-rack deployment.** Previous manufacturing issues have eased materially as greater automation has lifted production yields. The bottleneck has therefore shifted downstream to customers' data-center site readiness and rack deployment schedules.

Valuation/Recommendation

- **Maintain BUY with a target price of Rmb77.60,** based on 18.8x 2027F PE, pegged to 1SD above the historical mean.

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

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

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

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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