Hon Hai Precision (2317.TW)

What's new from Citi Taiwan Tech Conference

CITI'S TAKE

AI remains a core growth driver for Hon Hai, supported by hyperscaler demand, ASIC ramp-up, and sovereign AI projects. More importantly, vertical integration is becoming a key profitability lever, as Hon Hai expands into high-speed data, power, liquid cooling, connectors, busbars, and optical-related components. Its CPO progress also shows ambition to participate in next-generation AI networking, not just server manufacturing. Hon Hai targets to ship more than 10k CPO switches in 2026 and aim for 30-40k in 1H27. While pure assembly margins may remain modest, higher component attach rates and consignment models should improve profit dollars, capital efficiency, and ROE. Overall, Hon Hai is positioning itself as a full AI infrastructure integrator, with upside tied to rising rack complexity and broader component ownership. We reiterate Buy on Hon Hai in its strong position in AI data center and solid earnings growth trend.

Buy	
Price (05 Jun 26 13:30)	NT$284.50
Target price	NT$360.00
Expected share price return	26.5%
Expected dividend yield	2.7%
Expected total return	29.2%
Market Cap	NT$3,983,968M
	US$126,620M

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- **AI Demand Remains the Main Growth Engine.** Hon Hai also just announced its May sales of NT$859.4bn (up 3.3% MoM, 39.6% YoY). April+May sales is ahead of expected mainly driven by AI, with 2Q visibility better than initially expected. AI servers remain the largest growth driver, and full-year AI server revenue is expected to more than double. GPU racks still dominate, but ASIC projects are growing faster, with both existing and new programs contributing.

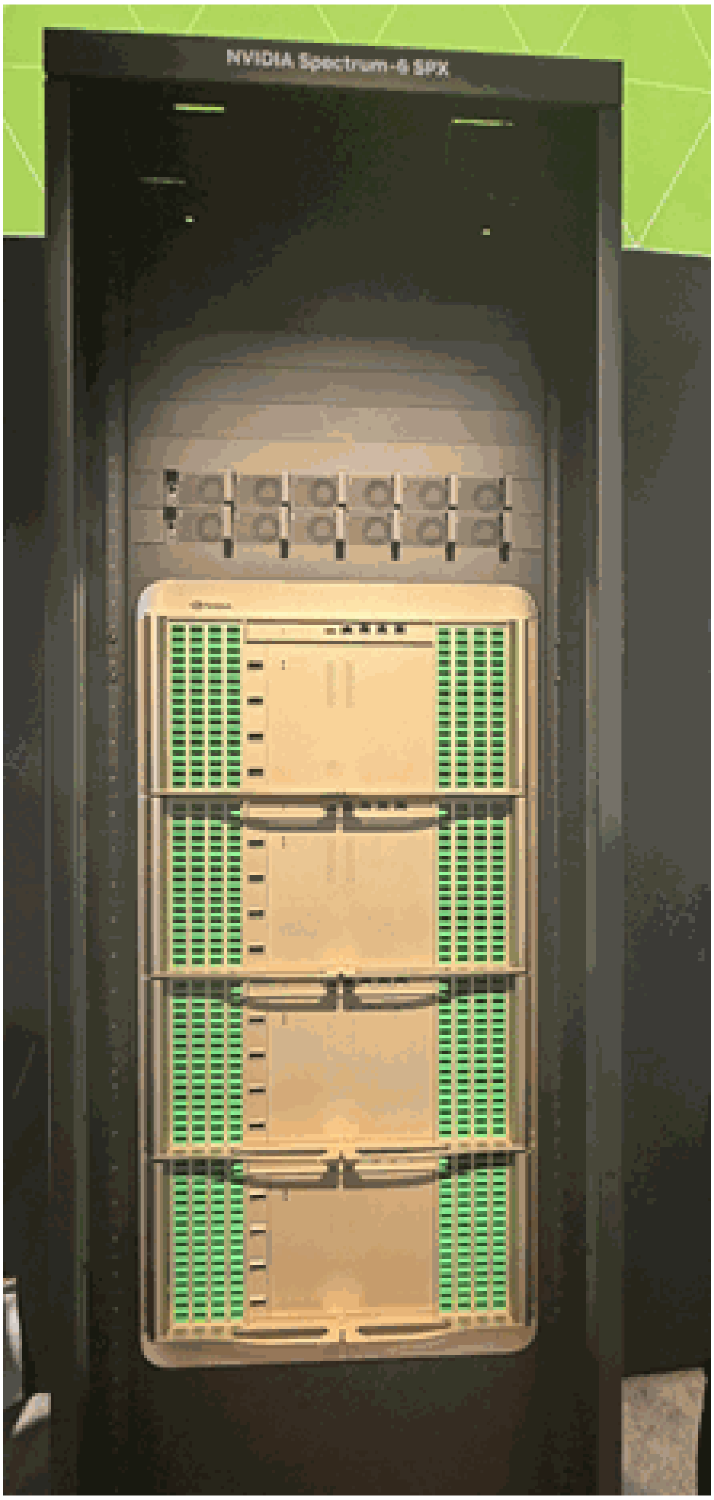
- **Profit Focus Shifts from Margin Percentage to Absolute Dollars.** Management emphasized absolute profit dollars rather than gross margin percentage, as AI products carry higher ASP, cost, and working capital needs. AI server assembly alone may have lower margin percentage, but profit dollars are higher than traditional ICT. Operating margin is targeted above 3%, with this year expected to improve from last year's 3.2%.

- **Vertical Integration Raises Component Value.** The company now targets over 50% internal content in AI rack components, excluding chips, with a longer-term ambition toward 80%. Key products include cables, connectors, switches, power components, chassis, manifolds, and liquid-cooling modules. Component margins are higher than pure assembly, so higher attach rates should support profitability and ROE improvement.

- **Capacity Expansion Supports AI and Sovereign Projects**. Capex is rising around 30% this year, mainly for regional expansion, automation, and AI server capacity. North America is the key AI production base, with the U.S. expected to become the largest AI server site by year-end, while Mexico remains important. Sovereign AI projects in the U.S., Europe, Taiwan, Japan, and other regions provide additional long-term growth potential.

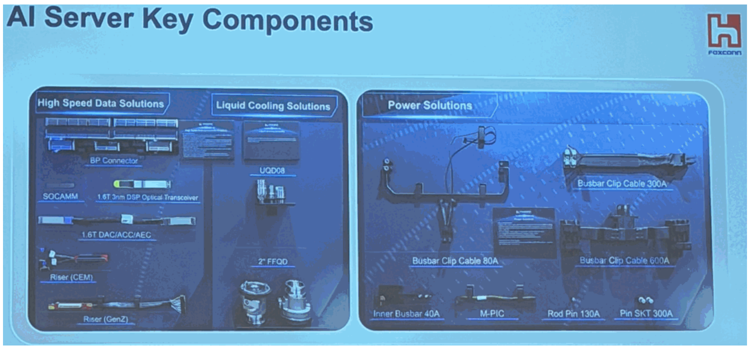
See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

Figure 1. Hon Hai's CPO switch rack for Nvidia



Source: Citi Research, Hon Hai

Figure 2. Hon Hai's vertical integration



Source: Citi Research, Hon Hai

Hon Hai Precision

Valuation

Our target price of NT$360 is based on 20x 2026E EPS, which is at the higher end of the historical trading range. We believe this multiple is justified by the company's enhanced sales growth and profit margin outlook, as well as new endeavors into AI server, EV, digital health and robotics. Hon Hai has been able to generate positive earnings streams, and thus we believe a P/E valuation methodology is appropriate.

Risks

Downside risks that could impede the stock from reaching our target price include: 1) slower-than-expected iPhone demand; 2) intensified peer competition; 3) weaker-than-expected execution on new business progress; and 4) higher-than-expected impact of COVID-19 or other macro factors.

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Appendix A-1

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Hon Hai Precision (2317.TW)
Ratings and Target Price History
Fundamental Research

Analyst: Laura (Chia Yi) Chen

Date	Rating	Target Price	Closing Price
1 14-Aug-23 08:56:05	1	*133.00	110.00
2 14-Mar-24 18:14:10	1	*166.00	121.00
3 14-May-24 10:12:01	1	*207.00	172.00
4 23-Jun-24 17:55:18	1	*255.00	212.00
5 14-Aug-24 09:06:07	1	*250.00	185.50
6 14-Nov-24 09:52:36	1	*260.00	211.50
7 14-May-25 08:26:47	1	*220.00	163.00
8 14-Aug-25 11:01:46	1	*250.00	199.50
9 06-Oct-25 08:33:44	1	*285.00	226.50
10 12-Nov-25 13:13:30	1	*320.00	251.00
11 14-May-26 11:56:31	1	*360.00	244.50

*Indicates Change

Rating/target price changes above reflect Eastern Time

Hon Hai Precision (2317.TW)
Short-Term View/Catalyst Watch Research

Analyst: Laura (Chia Yi) Chen

Date	Action	Expected Direction	Duration	Closing Price
1 14-Aug-24 05:06:07	Add STV	Upside	30 Days	185.50
2 13-Sep-24 14:18:39	Remove STV	Upside	30 Days	176.00
3 08-Oct-24 08:12:52	Add STV	Upside	90 Days	194.00
4 06-Jan-25 19:58:13	Remove STV	Upside	90 Days	184.50
5 10-Feb-25 01:21:07	Add STV	Upside	90 Days	174.00
6 17-Apr-25 07:55:20	Remove STV	Upside	90 Days	134.50
7 05-May-25 02:10:47	Add STV	Upside	30 Days	142.50
8 04-Jun-25 21:54:31	Remove STV	Upside	30 Days	156.00
9 05-Jun-25 06:40:07	Add STV	Downside	30 Days	155.50
10 04-Jul-25 14:23:13	Remove STV	Downside	30 Days	161.00
11 06-Jul-25 14:10:54	Add STV	Upside	30 Days	161.00
12 05-Aug-25 21:47:06	Remove STV	Upside	30 Days	184.50
13 14-Aug-25 07:01:46	Add STV	Upside	90 Days	199.50
14 12-Nov-25 19:59:24	Remove STV	Upside	90 Days	251.00
15 23-Nov-25 14:57:51	Add STV	Upside	30 Days	225.00
16 23-Dec-25 19:51:51	Remove STV	Upside	30 Days	224.00
17 05-Jan-26 01:27:04	Add STV	Upside	30 Days	234.50
18 04-Feb-26 19:57:48	Remove STV	Upside	30 Days	219.00

CW - Catalyst Watch, STV - Short-Term View

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% of companies in each rating category that are investment banking clients	38%	41%	28%	42%	37%	36%

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Citigroup Global Markets Taiwan Securities Company Limited	Laura (Chia Yi) Chen

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