Goldman Sachs Research

Equity Research

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Hon Hai (2317.TW): AI server racks ramp-up with mix upgrade; 1Q26 beat with GM up to 6.2%; Buy (on CL)

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2Q26 revenues outlook: The company expects: **(1) YoY growth in Cloud and Networking revenues**, driven by AI servers (both GPU and ASIC) and AI switch; **(2) YoY increase in Consumer electronics**, despite near-term challenges of memory pricing, the company focuses more on the high-end products with specification upgrade; **(3) flattish YoY in PCs;** and **(4) YoY growth in Components**. **We maintain our positive view on Hon Hai,** driven by AI servers, foldable phones, and EV outsourcing. With vertical integration of systems and components, coupled with global production capabilities, we expect Hon Hai to leverage its scale advantages into long-term order and market share sustainability. Maintain Buy (on CL).

1Q26 beat: GM up to 6.2% (vs. 5.9% in 4Q25), along with enhancing opex ratio, leading operating income to +63% YoY, or 10% / 13% ahead of our / Bloomberg consensus. The GM enhancement reflects the company's strong production efficiency, along with AI server racks enlarging scale, and strong bargaining power turning some AI server projects (e.g. ASIC AI servers) to consign business model.

Exhibit 1: Hon Hai 1Q26 result snapshot

NT m	1Q25	4Q25	1Q26	QoQ	YoY	GS	Act/GS	Cons.	Act/Cons.
Revenues	1,644,316	2,606,372	2,119,533	-19%	29%	2,129,590	0%	2,149,000	-1%
GP	100,548	153,327	130,981	-15%	30%	127,431	3%	130,670	0%
OP	46,500	85,591	75,649	-12%	63%	68,654	10%	66,916	13%
Net income	42,108	45,212	49,919	10%	19%	51,849	-4%	48,008	4%
Margins									
GM	6.1%	5.9%	6.2%	0.3ppt	0.1ppt	6.0%	0.2ppt	6.0%	0.2ppt
OPM	2.8%	3.3%	3.6%	0.3ppt	0.7ppt	3.2%	0.3ppt	3.1%	0.5ppt
NM	2.6%	1.7%	2.4%	0.6ppt	-0.2ppt	2.4%	-0.1ppt	2.2%	0.1ppt

Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

Key takeaways from earnings call

- **2026E outlook:** Hon Hai expects YoY revenue growth in 2026E, supported by YoY growth in Cloud & Networking as well as Consumer electronics. PC will see YoY decline, per management, and Components & Others will be flat YoY.
- **AI servers ramp up:** Management expects AI server rack shipment to grow high double-digit QoQ in 2Q26E, and strong shipment growth of AI server rack in 2026E, supported by strong demand and market share gain.
- **Expanding AI ecosystem:** Management notes the company has wide product coverage of AI computing and networking to capture rising client demand, and Hon Hai has also participated in multiple Sovereign AI projects (e.g. African sovereign project).

Exhibit 2: Hon Hai monthly/ quarterly revenues

	Jan 2026	Feb 2026	Mar 2026	Apr 2026	May 2026E	June 2026E	1Q26	2Q26E
Revenues (NT$m)	730,039	595,813	803,738	832,098	815,456	703,814	2,119,533	2,351,368
YoY	36%	8%	46%	30%	32%	30%	29%	31%
MoM/QoQ	-15%	-18%	35%	4%	-2%	-14%	-19%	11%
GS estimates (NT$m)	707,546	657,035	828,949	819,812			2,154,801	
Actual vs. GS	3%	-9%	-3%	1%			-2%	

Source: Company data, Goldman Sachs Global Investment Research

Earnings revision: We factor in Hon Hai 1Q26 earnings and keep earnings largely unchanged. in 2026-28E. We revise up GM by 0.1ppts in 2026-27E on product mix upgrade and scale advantages, keep Opex ratio largely unchanged and lower the non-OP.

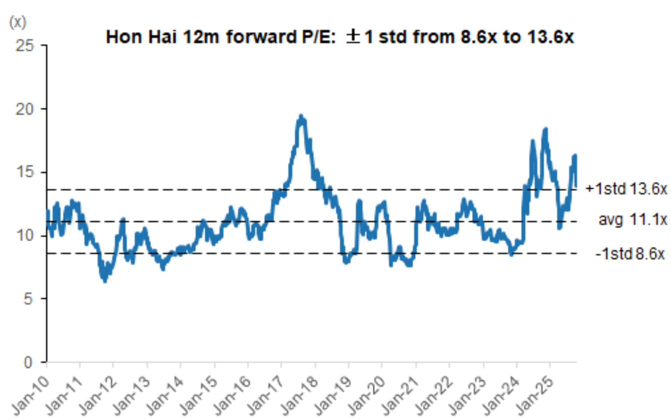
Exhibit 3: Earnings revision

NTD m	2026E Old	2026E New	2026E Chg	2027E Old	2027E New	2027E Chg	2028E Old	2028E New	2028E Chg
Revenues	11,055,869	11,057,373	0%	13,745,349	13,795,323	0%	15,534,482	15,585,758	0%
GP	637,857	647,208	1%	729,918	738,399	1%	809,383	818,051	1%
OP	351,540	364,002	4%	408,304	415,584	2%	458,925	466,437	2%
Net income	268,933	269,742	0%	318,204	317,625	0%	354,267	357,316	1%
EPS (diluted, NT$)	19.05	19.04	0%	22.53	22.49	0%	25.09	25.30	1%
Margins									
GM	5.8%	5.9%		5.3%	5.4%		5.2%	5.2%	
OPM	3.2%	3.3%		3.0%	3.0%		3.0%	3.0%	
NM	2.4%	2.4%		2.3%	2.3%		2.3%	2.3%	

Source: Company data, Goldman Sachs Global Investment Research

Valuation: Our unchanged 12m TP for **Hon Hai of NT$400 is based on 21x 2026E P/E (unchanged).** Our target P/E multiple is derived from peers' average ratio of trading P/E to forward year NI YoY growth and OPM (P/E divided by the sum of NI YoY and OPM). Our target P/E of 21x is above the high end of Hon Hai's historical trading range (high end at 20x), reflecting our positive view on Hon Hai's business expansion from the competitive consumer electronics market to AI servers and EVs outsourcing, which should drive profit expansion with diversifying business opportunities for Hon Hai. **Maintain Buy (on CL).**

Exhibit 4: Hon Hai 12M forward PE ratio



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: Hon Hai P&L Summary

Hon Hai (2317.TW)	2022	2023	2024	2025	2026E	2027E	2028E	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E
NTD bn															
P&L															
Revenue	**6,627**	**6,162**	**6,860**	**8,103**	**11,057**	**13,795**	**15,586**	**1,644**	**1,793**	**2,059**	**2,606**	**2,120**	**2,351**	**2,958**	**3,628**
COGS	(6,227)	(5,774)	(6,431)	(7,605)	(10,410)	(13,057)	(14,768)	(1,544)	(1,680)	(1,928)	(2,453)	(1,989)	(2,213)	(2,789)	(3,419)
Gross profit	**400**	**388**	**429**	**498**	**647**	**738**	**818**	**101**	**114**	**131**	**153**	**131**	**138**	**169**	**209**
Operating expense	(226)	(221)	(228)	(239)	(283)	(323)	(352)	(54)	(57)	(60)	(68)	(55)	(68)	(72)	(88)
EBITDA	**250**	**251**	**288**	**347**	**465**	**537**	**590**	**70**	**80**	**95**	**102**	**101**	**96**	**123**	**146**
D&A	(76)	(84)	(88)	(88)	(101)	(121)	(123)	(24)	(23)	(25)	(16)	(25)	(25)	(25)	(25)
EBIT	**174**	**167**	**201**	**259**	**364**	**416**	**466**	**46**	**57**	**71**	**86**	**76**	**70**	**97**	**121**
Net interest income/(expense)	9	16	9	4	3	17	17	1	(1)	(3)	7	1	1	1	1
Disposal of assets (pre-tax)	4	15	2	7	0	0	0	0	1	6	0	0	0	0	0
Others	1	(5)	1	23	13	12	12	12	9	13	(10)	(2)	5	5	5
Pretax profit	**188**	**192**	**212**	**293**	**379**	**445**	**495**	**59**	**65**	**87**	**82**	**74**	**76**	**103**	**126**
Income tax	(36)	(37)	(40)	(78)	(76)	(93)	(104)	(13)	(16)	(21)	(29)	(15)	(15)	(21)	(25)
Minorities	(10)	(13)	(19)	(26)	(34)	(34)	(34)	(4)	(5)	(8)	(8)	(8)	(8)	(8)	(8)
Net income	**141**	**142**	**153**	**189**	**270**	**318**	**357**	**42**	**44**	**58**	**45**	**50**	**52**	**74**	**93**
EPS (NTD)	10.04	10.07	10.79	13.43	19.04	22.49	25.30	2.98	3.16	4.08	3.20	3.54	3.71	5.24	6.55
DPS (NTD)	5.22	5.31	5.70	7.15	10.13	11.97	13.47								
Dividend payout ratio	52%	53%	53%	53%	53%	53%	53%								
YoY% growth & margins															
Revenue growth	11%	-7%	11%	18%	36%	25%	13%	24%	16%	11%	22%	29%	31%	44%	39%
EBITDA growth	11%	0%	15%	20%	34%	15%	10%	23%	25%	25%	12%	44%	20%	29%	44%
EBIT growth	17%	-4%	20%	29%	40%	14%	12%	27%	27%	29%	33%	63%	24%	38%	41%
Net income growth	2%	0%	7%	24%	42%	18%	12%	91%	27%	17%	-2%	19%	18%	28%	105%
EPS growth	1%	0%	7%	24%	42%	18%	12%	90%	26%	16%	0%	19%	17%	28%	105%
Gross margin	6.0%	6.3%	6.3%	6.1%	5.9%	5.4%	5.2%	6.1%	6.3%	6.4%	5.9%	6.2%	5.9%	5.7%	5.8%
EBITDA margin	3.8%	4.1%	4.2%	4.3%	4.2%	3.9%	3.8%	4.3%	4.5%	4.6%	3.9%	4.8%	4.1%	4.1%	4.0%
EBIT margin	2.6%	2.7%	2.9%	3.2%	3.3%	3.0%	3.0%	2.8%	3.2%	3.4%	3.3%	3.6%	3.0%	3.3%	3.3%

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology – Hon Hai

Valuation methodology: We are Buy rated on Hon Hai. Our 12-month target price of **NT$400** is based on a **21.0x 2026E P/E** multiple, which is set in line with peers' PEG&M ratio (i.e. P/E vs. forward year earnings growth and OPM).

Key risks: (1) Slower-than-expected ramp-up of AI servers business; (2) weaker-than-expected EV total solution performance across EV assembly, design, software and semis; (3) slower-than-expected ramp-up of capacity globally; and (4) fiercer-than-expected competition in consumer electronics EMS business.

2317.TW	12m Price Target: **NT$400.00**	Price: **NT$244.50**	Upside: **63.6%**

Buy CL

Market cap: NT$3.5tr / $109.9bn
Enterprise value: NT$3.3tr / $104.1bn
3m ADTV: NT$17.2bn / $544.7mn
Taiwan
Greater China Technology
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (NT$ mn) New	**8,103,104.8**	**11,057,372.6**	**13,795,323.3**	**15,585,757.7**
Revenue (NT$ mn) Old	8,103,104.8	11,055,869.5	13,745,349.0	15,534,482.1
EBITDA (NT$ mn)	347,220.9	465,463.2	536,887.8	589,707.0
EPS (NT$) New	**13.41**	**19.04**	**22.49**	**25.30**
EPS (NT$) Old	13.41	19.05	22.53	25.09
P/E (X)	13.9	12.8	10.9	9.7
P/B (X)	1.5	1.9	1.7	1.6
Dividend yield (%)	3.8	4.1	4.9	5.5
CROCI (%)	14.0	16.4	17.9	17.5

	3/26	6/26E	9/26E	12/26E
EPS (NT$)	3.60	3.71	5.24	6.55

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 14 May 2026 close.