

Luxshare (002475 CH)

1H24 resilient earnings; Well-positioned for AI smartphone cycle in 2H24/25E

Luxshare's 1H24 revenue/NP growth of 6%/24% YoY was in-line with the Company's pre-announced earnings growth of 20-25% YoY, implying 2Q24 sales/earnings growth 7%/25% YoY, (vs +5%/23% YoY in 1Q24). For 3Q24E, Luxshare guided 14-27% YoY earnings growth which was mainly driven by iPhone OEM share gains and better operating efficiency, in our view. Despite conservative 3Q guidance (mid-point of +21% YoY), we are encouraged by Luxshare's continued GPM expansion and improving operating efficiency into 2024-25E. Looking forward, we believe Luxshare is poised to capture opportunities in upcoming iPhone 16/AI smartphone cycle, datacenter connectivity and auto electronics business, and share gains in iPhone OEM/components in 2H24/25E. We slightly adjusted FY24-25E EPS by -3/-4%. The stock now trades at 20.2x/16.5x FY24/25E P/E, close to 1-SD below 5-yr avg. P/E. Maintain BUY with TP of RMB45.11 based on same 24x FY24E P/E.

- **2Q24 & 1H24 mostly in-line with solid margin improvement.** Luxshare's 1H24 revenue/NP growth of 6%/24% YoY was in-line with pre-announced earnings growth of 20-25% YoY. By segment, CE/computer/auto/communication delivered +3%/+5%/+48%/+22% YoY growth in 1H24. In particular, mgmt. highlighted business breakthroughs with key customers in datacenter connectivity products with potential order wins. Auto business saw healthy growth momentum backed by expanding product portfolio, solid demand from both domestic and overseas OEM/Tier-1s.
- **Positive outlook: Solid 3Q guidance; AI smartphone cycle, datacenter and auto business as key growth drivers.** Luxshare pre-announced 3Q24 earnings growth of 14-27% YoY. Despite conservative guidance in 3Q24, we believe Luxshare is poised to benefit from 1) Apple's iPhone16 upgrade cycle and AI smartphone launches, 2) booming demand and key customer breakthroughs in datacenter connectivity business, 3) auto business expansion in both domestic and overseas markets, and 4) share gains in iPhone OEM/components in 2H24E.
- **Attractive risk/reward at 20.2x/16.5x FY24/25E; Reiterate BUY.** We slightly adjusted FY24-25E EPS by -3%/-4% to reflect 1H24 results and higher margins. The stock now trades at 20.2/16.5x FY24/25E P/E, close to 1-SD below 5-year hist. avg P/E. Reiterate BUY with TP of RMB 45.11 based on same 24x FY24E P/E. Catalysts include Apple's iPhone 16 Series launch, top module/ iPhone share gains and datacenter/auto tier-1 business progress.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	214,028	231,905	251,444	291,179	335,832
YoY growth (%)	39.0	8.4	8.4	15.8	15.3
Net profit (RMB mn)	9,163.1	10,952.7	13,367.7	16,326.6	19,399.8
EPS (Reported) (RMB)	1.29	1.54	1.88	2.30	2.73
YoY growth (%)	28.6	19.4	22.0	22.1	18.8
Consensus EPS (RMB)	N/A	N/A	1.94	2.42	2.91
P/E (x)	29.4	24.6	20.2	16.5	13.9
P/B (x)	4.6	3.8	3.2	2.7	2.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	17.5	17.0	17.4	17.8	17.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB45.11
 (Previous TP) RMB46.61)
Up/Downside 19.1%
Current Price RMB37.89

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Stock Data

Mkt Cap (RMB mn)	269,019.0
Avg 3 mths t/o (RMB mn)	2,691.1
52w High/Low (RMB)	43.17/25.49
Total Issued Shares (mn)	7100.0

Source: FactSet

Shareholding Structure

Luxshare Ltd	38.3%
HKEX	7.4%

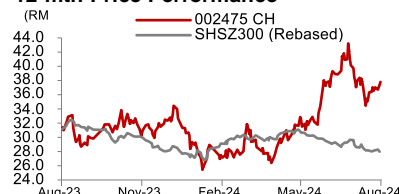
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-1.4%	1.9%
3-mth	16.5%	27.6%
6-mth	39.5%	46.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

1. Luxshare (002475 CH)-FY23 in-line with better-than-feared 1H24 earnings guidance; Solid outlook ahead ([link](#))
2. Luxshare (002475 CH)-Acquisition of Pegatron's Kunshan plant to further boost iPhone assembly share gain ([link](#))
3. Luxshare (002475 CH)-Recent correction overdone; Accumulate for Apple's share gain and auto/comm. Momentum ([link](#))
4. Luxshare (002475 CH)-Resilient FY22/1H23 despite industry headwinds ([link](#))

2Q24 Earnings Review

Figure 1: 2Q24 earnings review

RMB mn	2Q23	3Q23	4Q23	1Q24	2Q24	Actual		Consensus	
						QoQ	YoY	2Q24E	Diff
Revenue	48,029	57,904	76,031	52,407	51,191	-2%	7%	53,666	-5%
Gross profit	5,414	7,969	8,473	5,631	6,495	15%	20%	6,512	0%
Operating profit	2,772	3,877	4,034	2,808	3,357	20%	21%	2,920	15%
Net profit	2,338	3,018	3,578	2,471	2,925	18%	25%	2,872	2%
EPS (RMB)	0.36	0.42	0.51	0.35	0.40	14%	11%	0.40	0%
Gross margin	11.3%	13.8%	11.1%	10.7%	12.7%	1.9 ppt	1.4 ppt	12.1%	0.6 ppt
Operating margin	5.8%	6.7%	5.3%	5.4%	6.6%	1.2 ppt	0.8 ppt	5.4%	1.1 ppt
Adj. net margin	4.9%	5.2%	4.7%	4.7%	5.7%	1 ppt	0.8 ppt	5.4%	0.4 ppt

Source: Bloomberg, CMBIGM

Earnings Revision

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	251,444	291,179	335,832	268,274	314,730	359,928	-6%	-7%	-7%
Gross profit	30,133	35,688	41,665	31,741	38,004	43,935	-5%	-6%	-5%
Operating profit	15,402	18,516	21,750	15,869	19,286	22,442	-3%	-4%	-3%
Net profit	13,368	16,327	19,400	13,812	17,059	20,057	-3%	-4%	-3%
EPS (RMB)	1.88	2.30	2.73	1.94	2.40	2.82	-3%	-4%	-3%
Gross margin	12.0%	12.3%	12.4%	11.8%	12.1%	12.2%	0.2 ppt	0.2 ppt	0.2 ppt
Operating margin	6.1%	6.4%	6.5%	5.9%	6.1%	6.2%	0.2 ppt	0.2 ppt	0.2 ppt
Net margin	5.3%	5.6%	5.8%	5.1%	5.4%	5.6%	0.2 ppt	0.2 ppt	0.2 ppt

Source: CMBIGM

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	251,444	291,179	335,832	264,101	300,597	342,965	-5%	-3%	-2%
Gross profit	30,133	35,688	41,665	31,681	36,773	42,273	-5%	-3%	-1%
Operating profit	15,402	18,516	21,750	15,302	19,189	22,985	1%	-4%	-5%
Net profit	13,368	16,327	19,400	13,877	17,375	20,844	-4%	-6%	-7%
EPS (RMB)	1.88	2.30	2.73	1.94	2.42	2.91	-3%	-5%	-6%
Gross margin	12.0%	12.3%	12.4%	12.0%	12.2%	12.3%	0 ppt	0 ppt	0.1 ppt
Operating margin	6.1%	6.4%	6.5%	5.8%	6.4%	6.7%	0.3 ppt	0 ppt	-0.2 ppt
Net margin	5.3%	5.6%	5.8%	5.3%	5.8%	6.1%	0.1 ppt	-0.2 ppt	-0.3 ppt

Source: Bloomberg, CMBIGM

Figure 4: P&L forecast

RMB mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	92,501	153,946	214,028	231,905	251,444	291,179	335,832
...YoY	48%	66%	39%	8%	8%	16%	15%
Cost of sales	75,770	135,048	187,929	205,041	221,311	255,490	294,167
Gross profit	16,731	18,898	26,100	26,864	30,133	35,688	41,665
GPM (%)	18.1%	12.3%	12.2%	11.6%	12.0%	12.3%	12.4%
...YoY	34%	13%	38%	3%	12%	18%	17%
SG&A	-5,268	4,532	5,907	6,432	6,739	7,804	9,000
...% of rev	-5.7%	2.9%	2.8%	2.8%	2.7%	2.7%	2.7%
R&D	5,745	6,642	8,447	8,189	8,879	10,282	11,859
...% of rev	6.2%	4.3%	3.9%	3.5%	3.5%	3.5%	3.5%
Operating profit	8,168	8,167	11,154	12,860	15,402	18,516	21,750
OPM (%)	8.8%	5.3%	5.2%	5.5%	6.1%	6.4%	6.5%
...YoY	42%	0%	37%	15%	20%	20%	17%
Net profit	7,225	7,071	9,163	10,953	13,368	16,327	19,400
NPM (%)	7.8%	4.6%	4.3%	4.7%	5.3%	5.6%	5.8%
...YoY	53%	-2%	30%	20%	22%	22%	19%

Source: Company data, CMBIGM

Valuation

Reiterate BUY with new TP of RMB 45.11

We derived our new 12M TP of RMB 45.11 based on same 24x FY24E P/E. We believe this is justified as Luxshare continues to deliver earnings growth, market share gains and product expansion to capture datacentre, Apple and NEV opportunities in the next 3-5 years.

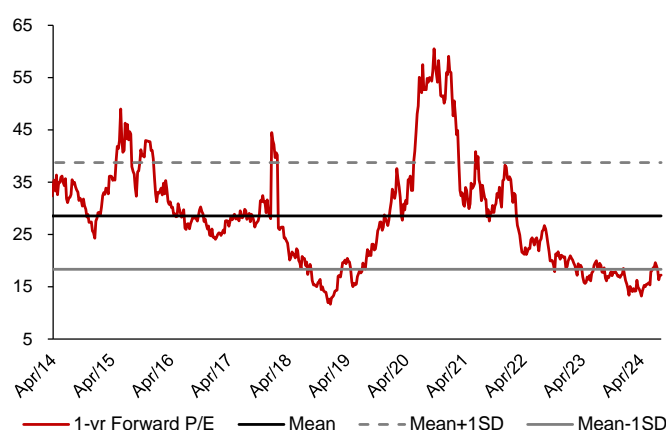
Upcoming catalysts include Apple's iPhone 16 Series launch, top module/ iPhone share gains and datacenter/auto tier-1 business progress.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x) FY24E	P/E (x) FY25E	P/B (x) FY24E	P/B (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
A-listed components												
Luxshare	002475 CH	BUY	38,244	37.89	45.1	19%	20.2	16.5	3.2	2.7	17.4	17.8
Goertek	002241 CH	BUY	9,792	20.45	25.9	27%	24.1	19.7	2.0	1.9	8.4	9.5
O-film	002456 CH	NR	3,763	8.12	NA	NA	40.6	25.0	6.4	6.2	5.0	11.1
Sunway	300136 CH	NR	2,413	17.80	NA	NA	21.2	17.1	2.2	2.0	10.0	12.0
BOE	000725 CH	NR	20,209	3.86	NA	NA	23.3	13.7	1.1	1.0	4.9	7.4
Hans Laser	002008 CH	NR	2,744	18.61	NA	NA	11.7	15.8	1.2	1.2	9.3	7.5
Lens Tech	300433 CH	NR	12,101	17.33	NA	NA	22.1	17.6	1.8	1.7	8.1	9.6
Everwin	300115 CH	NR	2,042	10.78	NA	NA	18.7	15.6	2.0	1.8	11.1	11.6
Average							22.6	17.5	2.5	2.3	9.1	10.7
H-listed components												
FIT Hon Teng	6088 HK	BUY	2,075	2.22	4.3	91%	11.1	6.8	0.8	0.7	7.0	10.3
Sunny Optical	2382 HK	BUY	6,689	47.65	72.5	52%	19.0	15.9	1.9	1.8	10.1	11.2
Tongda	698 HK	BUY	92	0.07	0.1	78%	4.6	3.4	0.1	0.1	2.2	2.9
BYDE	285 HK	BUY	8,710	30.15	45.3	50%	12.0	8.8	3.2	2.6	27.0	29.2
Q tech	1478 HK	BUY	753	4.96	6.4	30%	14.8	9.9	1.0	0.9	6.9	9.6
TK Group	2283 HK	BUY	190	1.78	2.8	57%	5.2	4.5	0.8	0.7	15.3	16.3
SMIC	981 HK	NR	25,568	16.34	NA	NA	26.2	18.2	0.8	0.8	2.9	4.0
YOFC	6869 HK	NR	1,623	7.82	NA	NA	10.3	5.7	0.5	0.4	7.0	7.9
Cowell	1415 HK	NR	2,521	22.90	NA	NA	24.7	14.5	4.9	3.7	21.3	27.4
Average							15.4	10.8	1.6	1.3	10.6	12.6

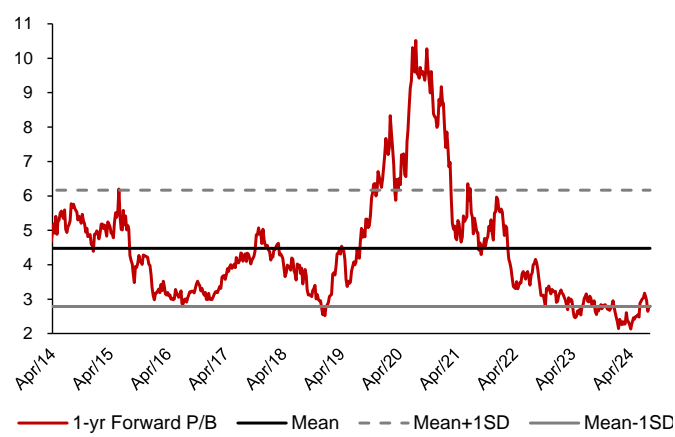
Source: Bloomberg, CMBIGM

Figure 6: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 7: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	153,946	214,028	231,905	251,444	291,179	335,832
Cost of goods sold	(135,048)	(187,929)	(205,041)	(221,311)	(255,490)	(294,167)
Gross profit	18,898	26,100	26,864	30,133	35,688	41,665
Selling expense	(790)	(831)	(889)	(955)	(1,106)	(1,276)
Admin expense	0	0	0	0	0	0
SG&A expense	(3,742)	(5,076)	(5,543)	(5,783)	(6,697)	(7,724)
R&D expense	(6,642)	(8,447)	(8,189)	(8,879)	(10,282)	(11,859)
Others	(1,101)	(3,100)	(3,632)	(3,420)	(3,513)	(3,616)
Other income	854	602	825	754	874	1,007
Gain/loss on financial assets at FVTPL	(116)	14	210	210	210	210
Investment gain/loss	689	998	1,771	1,900	1,900	1,900
Other gains/(losses)	118	895	1,442	1,442	1,442	1,442
EBIT	8,167	11,154	12,860	15,402	18,516	21,750
Net Interest income/(expense)	(555)	(883)	(483)	(531)	(584)	(643)
Other income/expense	(25)	4	25	25	25	25
Pre-tax profit	8,143	11,158	12,885	15,427	18,541	21,775
Income tax	(322)	(667)	(642)	(768)	(924)	(1,085)
After tax profit	7,821	10,491	12,243	14,658	17,617	20,690
Minority interest	750	1,328	1,291	1,291	1,291	1,291
Net profit	7,071	9,163	10,953	13,368	16,327	19,400
Gross dividends	771	927	0	0	0	0
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	72,309	88,292	94,228	121,674	144,333	180,871
Cash & equivalents	14,205	19,367	33,620	41,743	65,474	78,505
Account receivables	31,931	26,993	23,766	31,792	32,463	41,565
Inventories	20,901	37,363	29,758	42,689	40,947	55,350
Prepayment	406	587	487	487	487	487
Financial assets at FVTPL	2,107	1,353	1,721	1,721	1,721	1,721
Other current assets	2,760	2,628	3,242	3,242	3,242	3,242
Non-current assets	48,263	60,092	67,764	65,610	63,838	62,381
PP&E	37,799	46,721	46,787	44,632	42,861	41,404
Deferred income tax	891	1,209	873	873	873	873
Investment in JVs & assos	1,362	2,440	4,482	4,482	4,482	4,482
Intangibles	2,223	2,696	2,663	2,663	2,663	2,663
Goodwill	1,397	1,730	1,729	1,729	1,729	1,729
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	4,591	5,297	11,230	11,230	11,230	11,230
Total assets	120,572	148,384	161,992	187,284	208,171	243,251
Current liabilities	64,831	74,631	74,835	88,394	92,955	108,635
Short-term borrowings	11,920	14,912	20,514	21,514	22,514	23,514
Account payables	45,651	50,302	46,401	58,960	62,521	77,201
Tax payable	0	0	0	0	0	0
Other current liabilities	5,160	7,050	5,590	5,590	5,590	5,590
Accrued expenses	2,100	2,368	2,330	2,330	2,330	2,330
Non-current liabilities	9,959	14,969	16,872	16,872	16,872	16,872
Long-term borrowings	5,025	9,205	12,039	12,039	12,039	12,039
Other non-current liabilities	4,934	5,764	4,833	4,833	4,833	4,833
Total liabilities	74,789	89,600	91,707	105,266	109,827	125,507
Share capital	7,050	7,100	7,148	7,148	7,148	7,148
Retained earnings	24,041	32,288	42,027	55,395	71,721	91,121
Other reserves	4,196	5,952	7,132	7,132	7,132	7,132
Total shareholders equity	45,783	58,784	70,285	83,649	99,976	119,375
Minority interest	10,494	45,343	13,975	13,975	13,975	13,975
Total equity and liabilities	120,572	148,384	161,992	188,915	209,802	244,883

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,143	11,158	12,885	15,427	18,541	21,775
Depreciation & amortization	5,188	7,800	10,320	9,154	8,772	8,457
Tax paid	(322)	(667)	(642)	(768)	(924)	(1,085)
Change in working capital	(6,166)	(6,612)	4,281	(8,399)	4,633	(8,827)
Others	120	381	119	(237)	(339)	(442)
Net cash from operations	7,285	12,728	27,605	15,945	31,606	20,964
Investing						
Capital expenditure	(12,567)	(13,584)	(11,387)	(7,000)	(7,000)	(7,000)
Acquisition of subsidiaries/ investments	(54,513)	(9,352)	(25,906)	0	0	0
Net proceeds from disposal of short-term investments	54,095	8,786	16,948	0	0	0
Others	4,606	824	786	0	0	0
Net cash from investing	(8,380)	(13,326)	(19,560)	(7,000)	(7,000)	(7,000)
Financing						
Dividend paid	1,400	1,797	2,531	1,291	1,291	1,291
Net borrowings	(2,622)	8,967	8,533	1,000	1,000	1,000
Proceeds from share issues	2,387	1,597	547	0	0	0
Others	(1,555)	(4,204)	(7,540)	(3,112)	(3,165)	(3,224)
Net cash from financing	(390)	8,156	4,070	(822)	(875)	(933)
Net change in cash						
Cash at the beginning of the year	10,465	8,922	17,312	29,684	37,807	61,538
Exchange difference	(58)	833	256	0	0	0
Cash at the end of the year	8,922	17,312	29,684	37,807	61,538	74,569
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	66.4%	39.0%	8.4%	8.4%	15.8%	15.3%
Gross profit	12.9%	38.1%	2.9%	12.2%	18.4%	16.7%
EBIT	(0.0%)	36.6%	15.3%	19.8%	20.2%	17.5%
Net profit	(2.1%)	29.6%	19.5%	22.0%	22.1%	18.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	12.3%	12.2%	11.6%	12.0%	12.3%	12.4%
Return on equity (ROE)	18.4%	17.5%	17.0%	17.4%	17.8%	17.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.1	1.2	1.3	1.4	1.6	1.7
Receivable turnover days	6.7	7.3	9.1	9.1	9.1	9.1
Inventory turnover days	7.9	6.5	6.1	6.1	6.1	6.1
Payable turnover days	3.9	3.9	4.2	4.2	4.2	4.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	37.8	29.4	24.6	20.2	16.5	13.9
P/B	5.9	4.6	3.8	3.2	2.7	2.3
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

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CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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