

# Luxshare (002475 CH)

## Recent correction overdone; Accumulate for Apple's share gain and auto/comm. momentum

Luxshare retreated over 10% in the past week mainly due to market concerns on Huawei's Mate 60 Pro launch and [news report](#) on iPhone restrictions by Chinese government and state companies. We view both incidents do not have material impact on iPhone shipment given Mate 60's limited production capacity and high user stickiness on Apple's ecosystem. Despite challenging macro headwinds, Luxshare delivered solid sales/NP growth of 20%/15% YoY in 1H23, and we are positive on further share gain in Apple's iPhone/Watch/AirPods OEM/component, robust outlook in auto/comm., and better operating efficiency in 2H23E. We trimmed FY23-25E EPS by 1-6% to reflect lower GPM on mix shift and better growth in auto/comm.. The stock now trades at 18.6x/14.9x FY23/24E P/E (1-sd below 8-yr avg. P/E). Maintain BUY with new TP of RMB44.9 (based on same 28x FY23E P/E). Upcoming catalysts include iPhone 15 launch, Vision Pro ramp-up and auto tier-1 progress.

■ **Solid 2H23 outlook: Apple's share gain, Vision Pro and strong auto/comm.** As the major OEM/component supplier of Apple's iPhone/Airpods/Watch, we believe Luxshare will benefit from iPhone 15 cycle in 3Q23 and continue share gain in top module and iPhone assembly in 2H23E. Despite limited contribution from Apple's Vision Pro in 2H23E, we are positive on gradual share gain in FY24/25E. As we expect auto tier-1 business and communications segment to continue strong growth (40-50% CAGR) and overall profitability will recover in 2H23/FY24E, we forecast earnings will grow 24%/25% YoY in FY23/24E.

■ **1H23 in-line with impressive growth in automotive/communications.** Luxshare posted 1H23 revenue/NP growth of 20%/15% YoY, in-line with prior profit alert, and pre-announced 3Q23 earnings growth of 3-27% YoY, which is resilient given near-term weakness in smartphone/CE market (83% of FY23E sales). By segment, CE/computer/auto/communication grew 18%/-5%/52%/68% YoY in 1H23. GPM recovered QoQ to 11.3% in 2Q23 (vs. 10.0% in 1Q23) thanks to continuously improving product mix (auto/comm.). In particular, Luxcase Precision (casing/top module subsidiary) posted revenue/NP growth of 14%/18% YoY in 1H23 and NPM improved to 2.0% in 1H23 (vs 1.8% in 1H22).

■ **Recent noise offers buying opportunity; Reiterate BUY.** We suggest investors accumulate the stock after recent correction on market concerns over Mate 60 Pro launch and potential iPhone restriction by Chinese state companies, which have limited impact on iPhone shipment in our view. The stock now trades at 18.6x/14.9x FY23/24E P/E, close to 1-SD below 8-year hist. avg. P/E. Reiterate BUY with new TP of RMB44.9 (28x FY23E P/E).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	153,946	214,028	259,038	302,218	342,338
YoY growth (%)	66.4	39.0	21.0	16.7	13.3
Net profit (RMB mn)	7,070.5	9,163.1	11,394.6	14,250.2	17,246.3
EPS (Reported) (RMB)	1.00	1.29	1.60	2.01	2.43
YoY growth (%)	(2.8)	28.6	24.4	25.1	21.0
Consensus EPS (RMB)	N/A	N/A	1.63	2.06	2.51
P/E (x)	41.4	26.7	18.6	14.9	12.3
P/B (x)	6.4	4.2	2.1	1.9	1.6
Yield (%)	0.0	0.4	0.5	0.7	0.8
ROE (%)	18.4	17.5	14.2	13.2	14.1

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB44.9  
 (Previous TP) RMB48.0  
**Up/Downside** 50.5%  
**Current Price** RMB29.85

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### Stock Data

Mkt Cap (RMB mn)	211,935.0
Avg 3 mths t/o (RMB mn)	2,182.5
52w High/Low (RMB)	36.77/25.15
Total Issued Shares (mn)	7100.0

Source: FactSet

### Shareholding Structure

Luxshare Ltd	38.3%
HKEX	7.4%

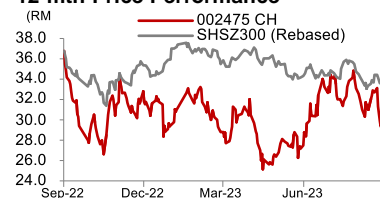
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-9.8%	-6.3%
3-mth	9.8%	12.2%
6-mth	3.6%	9.9%

Source: FactSet

### 12-month Price Performance



Source: FactSet

## Earnings Revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	259,038	302,218	342,338	263,053	307,081	343,043	-2%	-2%	0%
Gross Profit	30,180	36,000	41,763	33,354	39,502	44,664	-10%	-9%	-6%
Operating Profit	13,528	16,565	19,752	14,359	17,401	19,998	-6%	-5%	-1%
Net profit	11,395	14,250	17,246	12,176	15,036	17,477	-6%	-5%	-1%
EPS (RMB)	1.60	2.01	2.43	1.71	2.12	2.46	-6%	-5%	-1%
Gross Margin	11.7%	11.9%	12.2%	12.7%	12.9%	13.0%	-1 ppt	-1 ppt	-0.8 ppt
Operating Margin	5.2%	5.5%	5.8%	5.5%	5.7%	5.8%	-0.2 ppt	-0.2 ppt	-0.1 ppt
Net Margin	4.4%	4.7%	5.0%	4.6%	4.9%	5.1%	-0.2 ppt	-0.2 ppt	-0.1 ppt

Source: CMBIGM

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	259,038	302,218	342,338	250,265	293,806	344,678	4%	3%	-1%
Gross Profit	30,180	36,000	41,763	29,388	35,419	41,971	3%	2%	0%
Operating Profit	13,528	16,565	19,752	13,270	16,854	20,347	2%	-2%	-3%
Net profit	11,395	14,250	17,246	11,577	14,768	18,022	-2%	-4%	-4%
EPS (RMB)	1.60	2.01	2.43	1.63	2.06	2.51	-1%	-2%	-3%
Gross Margin	11.7%	11.9%	12.2%	11.7%	12.1%	12.2%	-0.1 ppt	-0.1 ppt	0 ppt
Operating Margin	5.2%	5.5%	5.8%	5.3%	5.7%	5.9%	-0.1 ppt	-0.3 ppt	-0.1 ppt
Net Margin	4.4%	4.7%	5.0%	4.6%	5.0%	5.2%	-0.2 ppt	-0.3 ppt	-0.2 ppt

Source: Bloomberg, CMBIGM

Figure 3: Revenue breakdown

RMB mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Computer Connectors</b>	<b>7,857</b>	<b>11,280</b>	<b>11,280</b>	<b>11,618</b>	<b>11,967</b>
...YoY	123%	44%	0%	3%	3%
<b>Automotive Interconnect</b>	<b>4,143</b>	<b>6,149</b>	<b>9,224</b>	<b>13,652</b>	<b>19,795</b>
...YoY	46%	48%	50%	48%	45%
<b>Comm. Interconnection</b>	<b>3,269</b>	<b>12,834</b>	<b>18,610</b>	<b>26,984</b>	<b>39,127</b>
...YoY	44%	293%	45%	45%	45%
<b>Consumer Electronics</b>	<b>134,638</b>	<b>179,667</b>	<b>214,597</b>	<b>243,038</b>	<b>262,446</b>
...YoY	65%	33%	19%	13%	8%
Casing + Top module	49,727	74,187	96,305	110,794	111,503
Type-C (Non-Apple)	3,328	3,660	3,843	4,035	4,237
Dongle	-	-	-	-	-
Lightning, wireless, LCP	11,201	12,031	12,878	13,171	12,995
Acoustics/haptics	6,484	7,052	6,875	7,038	7,206
Apple Watch	11,839	16,065	20,580	23,275	27,563
AirPods	46,935	43,130	38,804	38,818	39,264
Others	5,125	23,542	35,313	45,907	59,679
<b>Other Connectors</b>	<b>4,039</b>	<b>4,098</b>	<b>5,327</b>	<b>6,925</b>	<b>9,003</b>
...YoY	97%	1%	30%	30%	30%
<b>Total</b>	<b>153,946</b>	<b>214,028</b>	<b>259,038</b>	<b>302,218</b>	<b>342,338</b>
...YoY	66%	39%	21%	17%	13%

Source: Company data, CMBIGM

**Figure 4: P&L forecast**

RMB mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>92,501</b>	<b>153,946</b>	<b>214,028</b>	<b>259,038</b>	<b>302,218</b>	<b>342,338</b>
...YoY	48%	66%	39%	21%	17%	13%
Cost of sales	75,770	135,048	187,929	228,858	266,218	300,575
<b>Gross profit</b>	<b>16,731</b>	<b>18,898</b>	<b>26,100</b>	<b>30,180</b>	<b>36,000</b>	<b>41,763</b>
GPM (%)	<b>18.1%</b>	<b>12.3%</b>	<b>12.2%</b>	<b>11.7%</b>	<b>11.9%</b>	<b>12.2%</b>
...YoY	34%	13%	38%	16%	19%	16%
SG&A	-5,268	4,532	5,907	6,657	8,099	9,175
...% of rev	-5.7%	2.9%	2.8%	2.6%	2.7%	2.7%
R&D	5,745	6,642	8,447	9,584	11,182	12,667
...% of rev	6.2%	4.3%	3.9%	3.7%	3.7%	3.7%
<b>Operating profit</b>	<b>8,168</b>	<b>8,167</b>	<b>11,154</b>	<b>13,528</b>	<b>16,565</b>	<b>19,752</b>
OPM (%)	8.8%	5.3%	5.2%	5.2%	5.5%	5.8%
...YoY	42%	0%	37%	21%	22%	19%
<b>Net profit</b>	<b>7,225</b>	<b>7,071</b>	<b>9,163</b>	<b>11,395</b>	<b>14,250</b>	<b>17,246</b>
NPM (%)	7.8%	4.6%	4.3%	4.4%	4.7%	5.0%
...YoY	53%	-2%	30%	24%	25%	21%

Source: Company data, CMBIGM

## Valuation

### Reiterate BUY with new TP of RMB 44.9.

We derived our new 12m TP of RMB 44.9 based on same 28x FY23E P/E. We believe this is justified as Luxshare continues to deliver resilient earnings growth, market share gain and product expansion to capture Apple and NEV opportunities in the next 3-5 years.

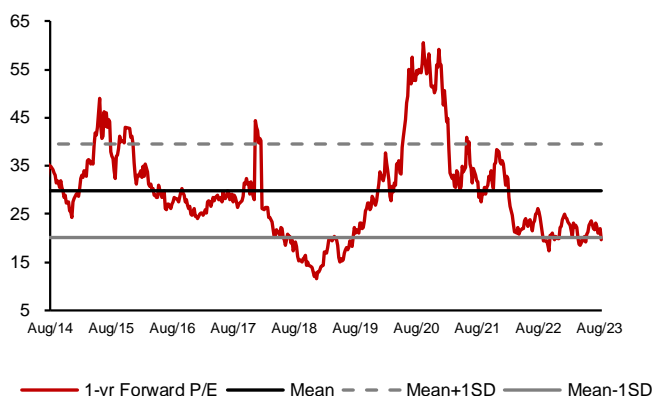
Upcoming catalysts include share gain in Apple products, Vision Pro ramp-up and auto tier-1 progress. Major risks include weaker iPhone/AirPods demand, weaker yield improvement and slower integration of acquired businesses.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>A-listed components</b>												
Luxshare	002475 CH	BUY	29,191	29.85	44.9	51%	18.6	14.9	2.1	1.9	14.2	13.2
Goertek	002241 CH	BUY	7,504	16.00	17.6	10%	36.4	16.7	1.7	1.6	4.7	9.5
Sunway	300136 CH	NR	2,434	18.35	NA	NA	21.3	16.9	2.4	2.1	11.4	13.3
BOE	000725 CH	NR	20,442	3.93	NA	NA	21.5	12.2	1.1	0.9	4.0	8.9
Hans Laser	002008 CH	NR	3,377	23.41	NA	NA	20.6	15.5	1.6	1.5	7.6	9.6
Lens Tech	300433 CH	NR	8,449	12.39	NA	NA	20.0	15.0	1.3	1.3	6.7	8.5
Everwin	300115 CH	NR	1,703	10.32	NA	NA	28.4	13.8	2.0	1.8	7.1	13.2
<b>Average</b>							<b>23.8</b>	<b>15.0</b>	<b>2.5</b>	<b>2.4</b>	<b>2.0</b>	<b>6.4</b>
<b>H-listed components</b>												
FIT Hon Teng	6088 HK	BUY	968	1.04	2.1	98%	6.9	5.6	0.4	0.4	5.2	6.3
AAC Tech	2018 HK	HOLD	2,230	14.58	14.0	-4%	25.6	14.7	0.7	0.7	2.7	4.6
Sunny Optical	2382 HK	HOLD	8,350	59.65	78.3	31%	32.2	20.9	2.5	2.3	7.8	11.2
Tongda	698 HK	BUY	102	0.08	0.2	107%	4.6	2.8	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	10,525	36.60	42.0	15%	21.3	17.3	2.5	2.2	11.9	13.0
Q tech	1478 HK	BUY	425	2.81	3.6	28%	10.1	5.3	0.6	0.5	5.9	10.3
TK Group	2283 HK	BUY	149	1.40	3.1	121%	5.0	3.6	0.7	0.6	13.3	17.4
SMIC	981 HK	NR	29,364	20.05	NA	NA	21.5	21.9	1.0	0.9	4.6	4.3
YOFC	6869 HK	NR	2,340	10.80	NA	NA	5.7	5.2	0.7	0.6	11.6	11.3
Cowell	1415 HK	NR	1,594	14.70	NA	NA	25.7	14.2	3.7	2.9	15.2	22.9
<b>Average</b>							<b>15.9</b>	<b>11.1</b>	<b>1.3</b>	<b>1.1</b>	<b>8.0</b>	<b>10.5</b>

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	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>92,501</b>	<b>153,946</b>	<b>214,028</b>	<b>259,038</b>	<b>302,218</b>	<b>342,338</b>
Cost of goods sold	(75,770)	(135,048)	(187,929)	(228,858)	(266,218)	(300,575)
<b>Gross profit</b>	<b>16,731</b>	<b>18,898</b>	<b>26,100</b>	<b>30,180</b>	<b>36,000</b>	<b>41,763</b>
Selling expense	(477)	(790)	(831)	(958)	(1,148)	(1,301)
Admin expense	0	0	0	0	0	0
SG&A expense	5,745	(3,742)	(5,076)	(5,699)	(6,951)	(7,874)
R&D expense	(5,745)	(6,642)	(8,447)	(9,584)	(11,182)	(12,667)
Others	(9,512)	(1,101)	(3,100)	(2,835)	(2,967)	(3,104)
Other income	451	854	602	518	907	1,027
Gain/loss on financial assets at FVTPL	329	(116)	14	14	14	14
Investment gain/loss	648	689	998	998	998	998
Other gains/(losses)	(2)	118	895	895	895	895
<b>EBIT</b>	<b>8,168</b>	<b>8,167</b>	<b>11,154</b>	<b>13,528</b>	<b>16,565</b>	<b>19,752</b>
<b>Net Interest income/(expense)</b>	<b>(905)</b>	<b>(555)</b>	<b>(883)</b>	<b>(883)</b>	<b>(971)</b>	<b>(1,068)</b>
Other income/expense	(32)	(25)	4	4	4	4
<b>Pre-tax profit</b>	<b>8,136</b>	<b>8,143</b>	<b>11,158</b>	<b>13,531</b>	<b>16,569</b>	<b>19,755</b>
Income tax	(645)	(322)	(667)	(809)	(991)	(1,181)
<b>After tax profit</b>	<b>7,491</b>	<b>7,821</b>	<b>10,491</b>	<b>12,722</b>	<b>15,578</b>	<b>18,574</b>
Minority interest	266	750	1,328	1,328	1,328	1,328
<b>Net profit</b>	<b>7,225</b>	<b>7,071</b>	<b>9,163</b>	<b>11,395</b>	<b>14,250</b>	<b>17,246</b>
Gross dividends	774	771	927	1,153	1,442	1,745
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>43,396</b>	<b>72,309</b>	<b>88,292</b>	<b>107,011</b>	<b>115,895</b>	<b>115,895</b>
Cash & equivalents	10,528	14,205	19,367	30,269	42,723	42,723
Account receivables	14,100	31,931	26,993	46,222	38,881	57,268
Inventories	13,211	20,901	37,363	33,590	48,946	44,242
Prepayment	184	406	587	587	587	587
Financial assets at FVTPL	3,160	2,107	1,353	1,353	1,353	1,353
Other current assets	2,212	2,760	2,628	2,628	2,628	2,628
<b>Non-current assets</b>	<b>26,617</b>	<b>48,263</b>	<b>60,092</b>	<b>51,843</b>	<b>53,308</b>	<b>53,308</b>
PP&E	21,357	37,799	46,721	41,378	42,843	42,843
Deferred income tax	356	891	1,209	1,209	1,209	1,209
Investment in JVs & assos	1,347	1,362	2,440	2,440	2,440	2,440
Intangibles	1,265	2,223	2,696	2,696	2,696	2,696
Goodwill	533	1,397	1,730	1,730	1,730	1,730
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	1,759	4,591	5,297	5,297	5,297	5,297
<b>Total assets</b>	<b>70,013</b>	<b>120,572</b>	<b>148,384</b>	<b>158,854</b>	<b>169,203</b>	<b>169,203</b>
<b>Current liabilities</b>	<b>33,593</b>	<b>64,831</b>	<b>74,631</b>	<b>92,908</b>	<b>95,706</b>	<b>112,450</b>
Short-term borrowings	7,577	11,920	14,912	15,912	16,912	17,912
Account payables	23,180	45,651	50,302	67,578	69,377	85,120
Tax payable	0	0	0	0	0	0
Other current liabilities	1,438	5,160	7,050	7,050	7,050	7,050
Accrued expenses	1,398	2,100	2,368	2,368	2,368	2,368
<b>Non-current liabilities</b>	<b>5,513</b>	<b>9,959</b>	<b>14,969</b>	<b>14,969</b>	<b>14,969</b>	<b>14,969</b>
Long-term borrowings	1,495	5,025	9,205	9,205	9,205	9,205
Other non-current liabilities	4,018	4,934	5,764	5,764	5,764	5,764
<b>Total liabilities</b>	<b>39,106</b>	<b>74,789</b>	<b>89,600</b>	<b>107,877</b>	<b>110,675</b>	<b>127,419</b>
Share capital	7,000	7,050	7,100	7,100	7,100	7,100
Retained earnings	17,996	24,041	32,288	42,756	55,854	71,658
Other reserves	3,106	4,196	5,952	5,952	5,952	5,952
<b>Total shareholders equity</b>	<b>30,907</b>	<b>45,783</b>	<b>58,784</b>	<b>101,151</b>	<b>114,249</b>	<b>130,054</b>
Minority interest	2,805	10,494	45,343	45,343	45,343	45,343
<b>Total equity and liabilities</b>	<b>70,013</b>	<b>120,572</b>	<b>148,384</b>	<b>209,029</b>	<b>224,924</b>	<b>257,473</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>8,136</b>	<b>8,143</b>	<b>11,158</b>	<b>13,531</b>	<b>16,569</b>	<b>19,755</b>
Depreciation & amortization	2,417	5,188	7,800	5,328	5,535	5,535
Tax paid	(645)	(322)	(667)	(809)	(991)	(1,181)
Change in working capital	(2,637)	(6,166)	(6,612)	1,821	(6,216)	2,061
Others	(1,043)	120	381	131	101	101
<b>Net cash from operations</b>	<b>6,873</b>	<b>7,285</b>	<b>12,728</b>	<b>16,898</b>	<b>21,288</b>	<b>21,288</b>
<b>Investing</b>						
Capital expenditure	(7,502)	(12,567)	(13,584)	(7,000)	(7,000)	(7,000)
Acquisition of subsidiaries/ investments	(57,780)	(54,513)	(9,352)	0	0	0
Net proceeds from disposal of short-term investments	56,029	54,095	8,786	0	0	0
Others	105	4,606	824	0	0	0
<b>Net cash from investing</b>	<b>(9,148)</b>	<b>(8,380)</b>	<b>(13,326)</b>	<b>(7,000)</b>	<b>(7,000)</b>	<b>(7,000)</b>
<b>Financing</b>						
Dividend paid	1,066	1,400	1,797	2,255	2,480	2,769
Net borrowings	1,771	(2,622)	8,967	1,000	1,000	1,000
Proceeds from share issues	1,610	2,387	1,597	0	0	0
Others	2,340	(1,555)	(4,204)	(5,392)	(5,932)	(6,606)
<b>Net cash from financing</b>	<b>6,786</b>	<b>(390)</b>	<b>8,156</b>	<b>(2,137)</b>	<b>(2,451)</b>	<b>(2,837)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	6,147	10,465	8,922	17,312	24,986	24,986
Exchange difference	(195)	(58)	833	0	0	0
<b>Cash at the end of the year</b>	<b>10,465</b>	<b>8,922</b>	<b>17,312</b>	<b>24,986</b>	<b>37,440</b>	<b>37,440</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	48.0%	66.4%	39.0%	21.0%	16.7%	13.3%
Gross profit	34.4%	12.9%	38.1%	15.6%	19.3%	16.0%
EBIT	42.2%	(0.0%)	36.6%	21.3%	22.5%	19.2%
Net profit	53.3%	(2.1%)	29.6%	24.4%	25.1%	21.0%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	18.1%	12.3%	12.2%	11.7%	11.9%	12.2%
Return on equity (ROE)	27.4%	18.4%	17.5%	14.2%	13.2%	14.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.3	1.1	1.2	1.2	1.2	1.0
Receivable turnover days	6.7	6.7	7.3	7.3	7.3	7.3
Inventory turnover days	7.2	7.9	6.5	6.5	6.5	6.5
Payable turnover days	3.7	3.9	3.9	3.9	3.9	3.9
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	44.0	41.4	26.7	18.6	14.9	12.3
P/B	10.3	6.4	4.2	2.1	1.9	na
Div yield (%)	0.2	0.0	0.4	0.5	0.7	0.8

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

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