

# Luxshare (002475 CH)

## Acquisition of Pegatron's Kunshan plant to further boost iPhone assembly share gain

Based on filings of Pegatron (iPhone OEM) on 28 Dec, Luxshare is expected to invest RMB 2.1bn for 62.5% stake of Pegatron's iPhone assembly plant in Kunshan. After the deal close, Luxshare will become the 2<sup>nd</sup> largest iPhone assembler with 35%+ share after Foxconn, and Pegatron will target to reallocate resources and regional production capacity. Despite recent macro headwinds and iPhone's pressure from Huawei's comeback, we believe Luxshare is well-positioned for further share gain across Apple's iPhone/ Watch/AirPods/Vision Pro supply chain in FY24/25E. We are positive on Luxshare's synergy with recent acquisitions, fast-growing auto/comm. business and better operating efficiency in FY24/25E. The stock is trading at 22.2x/17.6x FY23/24E P/E (1-sd below 5-yr avg. P/E). Maintain BUY with the same TP of RMB46.96 (based on 24x FY24E P/E). Upcoming catalysts include Vision Pro ramp-up and auto tier-1 progress.

- Luxshare to acquire Pegatron's iPhone assembly plant in Kunshan, boosting iPhone assembly share.** Luxshare will invest RMB 2.1bn in the Kunshan plant for 62.5% stake as capital expansion, and Pegatron's stake in the facility will drop to 37.5%. After the expansion into iPhone assembly business since iPhone 14 Series, Luxshare has been gaining shares with order win of three iPhone 15 models in 2023, including premium 15 Pro. Foxconn, Pegatron and Luxshare are the three major iPhone assemblers with share allocation of 60%, 25% and 15%, based on our estimates. After the deal close, we believe Luxshare will surpass Pegatron to become the 2<sup>nd</sup> largest iPhone assembler after Foxconn.
- Accelerated share gain across Apple product lines and strong outlook in auto/comm segments.** Luxshare pre-announced FY23E net income growth at 17.5-22.5% YoY in 3Q23 earnings release, implying 31% YoY growth in 4Q23 (vs 15% in 3Q). We believe stronger earnings in 4Q23 was a result of Luxshare's share gain in top module/ smartphone OEM biz and higher share allocation of high-end models, and we are positive on further iPhone OEM business upside in FY24/25E post Kunshan plant acquisition. In addition, comm./auto tier-1 business are poised to deliver solid growth and better margins with order wins and product portfolio expansion.
- Attractive risk/reward; Reiterate BUY.** We are positive on Luxshare's share gain across Apple product lines and robust auto/comm. outlook, and market concerns on Huawei's comeback are overdone. The stock is trading at 22.2x/17.6x FY23/24E P/E, close to 1-SD below 5-year hist. avg. P/E. Reiterate BUY with the same TP of RMB46.96 (24x FY24E P/E).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	153,946	214,028	233,706	279,882	329,714
YoY growth (%)	66.4	39.0	9.2	19.8	17.8
Net profit (RMB mn)	7,070.5	9,163.1	10,989.6	13,898.7	17,283.0
EPS (Reported) (RMB)	1.00	1.29	1.55	1.96	2.43
YoY growth (%)	(2.8)	28.6	19.9	26.5	24.3
Consensus EPS (RMB)	N/A	N/A	1.60	2.04	2.51
P/E (x)	41.4	26.7	22.2	17.6	13.6
P/B (x)	6.4	4.2	2.4	2.2	1.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	18.4	17.5	10.9	12.3	14.2

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB46.96  
 (Previous TP RMB46.96)  
**Up/Downside** 36.3%  
**Current Price** RMB34.45

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### Stock Data

Mkt Cap (RMB mn)	235,720.0
Avg 3 mths t/o (RMB mn)	1,570.1
52w High/Low (RMB)	34.82/25.15
Total Issued Shares (mn)	7100.0

Source: FactSet

### Shareholding Structure

Luxshare Ltd	38.3%
HKEX	7.4%

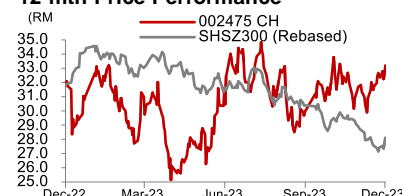
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	4.6%	10.3%
3-mth	11.3%	23.1%
6-mth	8.9%	25.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Valuation

### Reiterate BUY with TP of RMB 46.96.

We maintain our 12m TP of RMB 46.96, which is based on the same 24x FY24E 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.

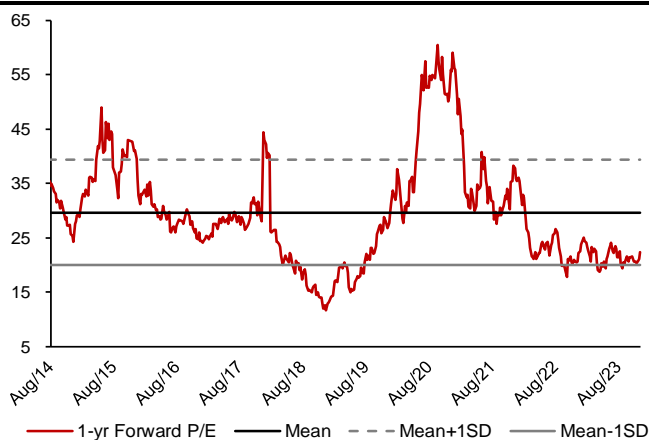
Upcoming catalysts include share gain in Apple products, Vision Pro ramp-up and auto tier-1 progress. Major risks include weaker iPhone/AirPods demand, weaker yield improvement and slower integration of acquired businesses.

**Figure 1: Peers' valuation**

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	P/B (x) FY24E	ROE (%) FY23E	ROE (%) FY24E
<b>A-listed components</b>												
Luxshare	002475 CH	BUY	34,705	34.45	47.0	36%	22.2	17.6	2.4	2.2	10.9	12.3
Goertek	002241 CH	BUY	10,129	21.01	19.2	-9%	48.9	27.3	2.3	2.1	4.6	7.8
O-film	002456 CH	NR	3,999	8.71	NA	NA	-	42.9	9.8	9.2	(7.3)	9.7
Sunway	300136 CH	NR	3,218	23.60	NA	NA	29.0	22.2	3.1	2.8	10.8	12.2
BOE	000725 CH	NR	20,542	3.90	NA	NA	30.0	13.2	1.1	1.0	3.4	8.0
Hans Laser	002008 CH	NR	3,073	20.72	NA	NA	20.2	15.2	1.4	1.3	7.0	8.8
Lens Tech	300433 CH	NR	9,271	13.20	NA	NA	21.2	16.0	1.4	1.3	6.8	8.5
Everwin	300115 CH	NR	2,247	13.25	NA	NA	61.1	22.2	2.7	2.5	2.9	9.6
<b>Average</b>							<b>33.2</b>	<b>22.1</b>	<b>3.0</b>	<b>2.8</b>	<b>4.9</b>	<b>9.6</b>
<b>H-listed components</b>												
FIT Hon Teng	6088 HK	BUY	1,082	1.16	2.1	78%	7.7	6.2	0.4	0.4	5.2	6.3
AAC Tech	2018 HK	HOLD	3,551	23.15	14.0	-39%	40.7	23.3	1.1	1.1	2.7	4.6
Sunny Optical	2382 HK	HOLD	9,909	70.60	64.1	-9%	46.6	26.5	3.0	2.8	6.4	10.6
Tongda	698 HK	BUY	128	0.10	0.2	65%	5.7	3.6	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	10,510	36.45	44.2	21%	18.6	14.8	2.5	2.2	13.6	15.1
Q tech	1478 HK	BUY	672	4.43	3.6	-19%	15.9	8.3	0.9	0.9	5.9	10.3
TK Group	2283 HK	BUY	149	1.40	3.1	121%	5.0	3.7	0.7	0.6	13.3	16.3
SMIC	981 HK	NR	29,807	19.70	NA	NA	22.9	25.0	1.0	0.9	4.5	3.6
YOFC	6869 HK	NR	1,948	8.35	NA	NA	4.5	4.7	0.5	0.5	11.8	10.9
Cowell	1415 HK	NR	2,497	22.90	NA	NA	37.1	22.5	5.8	4.6	15.4	22.3
<b>Average</b>							<b>20.5</b>	<b>13.9</b>	<b>1.6</b>	<b>1.4</b>	<b>8.1</b>	<b>10.4</b>

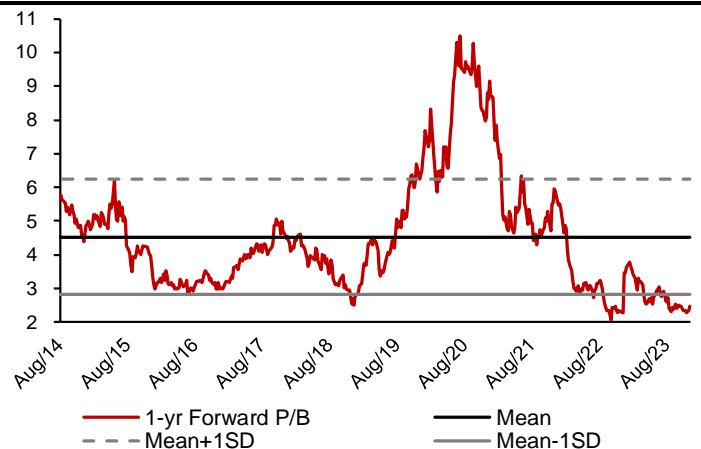
Source: Bloomberg, CMBIGM.

**Figure 2: 12M forward P/E band**



Source: Bloomberg, CMBIGM

**Figure 3: 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>233,706</b>	<b>279,882</b>	<b>329,714</b>
Cost of goods sold	(75,770)	(135,048)	(187,929)	(205,741)	(246,248)	(289,335)
<b>Gross profit</b>	<b>16,731</b>	<b>18,898</b>	<b>26,100</b>	<b>27,964</b>	<b>33,633</b>	<b>40,378</b>
Selling expense	(477)	(790)	(831)	(876)	(1,064)	(1,253)
Admin expense	0	0	0	0	0	0
SG&A expense	5,745	(3,742)	(5,076)	(5,142)	(6,437)	(7,583)
R&D expense	(5,745)	(6,642)	(8,447)	(8,647)	(10,356)	(12,199)
Others	(9,512)	(1,101)	(3,100)	(2,878)	(2,634)	(2,749)
Other income	451	854	602	467	840	989
Gain/loss on financial assets at FVTPL	329	(116)	14	14	14	14
Investment gain/loss	648	689	998	1,300	1,300	1,300
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>13,097</b>	<b>16,191</b>	<b>19,791</b>
<b>Net Interest income/(expense)</b>	<b>(905)</b>	<b>(555)</b>	<b>(883)</b>	<b>(600)</b>	<b>(660)</b>	<b>(726)</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>13,101</b>	<b>16,195</b>	<b>19,794</b>
Income tax	(645)	(322)	(667)	(784)	(969)	(1,184)
<b>After tax profit</b>	<b>7,491</b>	<b>7,821</b>	<b>10,491</b>	<b>12,317</b>	<b>15,226</b>	<b>18,611</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>10,990</b>	<b>13,899</b>	<b>17,283</b>
Gross dividends	774	771	927	1,112	1,406	1,748
<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>114,650</b>	<b>135,118</b>	<b>148,801</b>
Cash & equivalents	10,528	14,205	19,367	30,269	42,723	42,723
Account receivables	14,100	31,931	26,993	39,248	39,706	52,967
Inventories	13,211	20,901	37,363	26,423	49,922	39,782
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	40,388	41,853	41,853
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>81,105</b>	<b>97,313</b>	<b>105,104</b>
Short-term borrowings	7,577	11,920	14,912	15,912	16,912	17,912
Account payables	23,180	45,651	50,302	55,775	70,983	77,775
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>96,074</b>	<b>112,282</b>	<b>120,074</b>
Share capital	7,000	7,050	7,100	7,100	7,100	7,100
Retained earnings	17,996	24,041	32,288	42,351	55,138	71,015
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>100,746</b>	<b>113,533</b>	<b>129,410</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>196,821</b>	<b>225,816</b>	<b>249,484</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>						
Profit before taxation	8,136	8,143	11,158	13,101	16,195	19,794
Depreciation & amortization	2,417	5,188	7,800	5,328	5,535	5,535
Tax paid	(645)	(322)	(667)	(784)	(969)	(1,184)
Change in working capital	(2,637)	(6,166)	(6,612)	4,159	(8,748)	3,670
Others	(1,043)	120	381	(3,783)	5,400	(6,063)
<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	2,439	2,734
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)	(5,109)	(5,539)	(6,193)
<b>Net cash from financing</b>	<b>6,786</b>	<b>(390)</b>	<b>8,156</b>	<b>(1,855)</b>	<b>(2,099)</b>	<b>(2,460)</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%	9.2%	19.8%	17.8%
Gross profit	34.4%	12.9%	38.1%	7.1%	20.3%	20.1%
EBIT	42.2%	(0.0%)	36.6%	17.4%	23.6%	22.2%
Net profit	53.3%	(2.1%)	29.6%	19.9%	26.5%	24.3%

<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%	12.0%	12.0%	12.2%
Return on equity (ROE)	27.4%	18.4%	17.5%	13.8%	13.0%	14.2%

<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	1.4	1.4	1.4
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	21.5	17.0	13.6
P/B	10.4	6.4	4.2	2.3	2.1	1.8
Div yield (%)	0.2	0.0	0.0	0.0	0.0	0.0

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

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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
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<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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