

Luxshare (002475 CH)

FY23 in-line with better-than-feared 1H24 earnings guidance; Solid outlook ahead

Luxshare posted FY23 revenue/NP growth of 8%/20% YoY, largely in-line with pre-announcement of 20-25% YoY, while 1H24E earnings guidance of 20-25% YoY (implying 2Q24E 18%-27% YoY) is above market expectations. We believe the strong 1H24 outlook is mainly driven by 1) datacenter connectivity (optic/copper) products, cooling and power solutions, and 2) auto biz momentum on stronger NEV and ADAS/AD demand from overseas markets. Looking forward, despite recent macro headwinds and iPhone shipment weakness, we believe Luxshare is well-positioned to capture opportunities in datacentre connectivity business, automotive connector business, gain share in iPhone/MacBook/iPad/Watch OEM/components and Apple's multiple product launches in 2H24E. We slightly adjusted FY24-25E EPS by -1/-1% to factor in FY23 results. The stock now trades at 14.2x/11.5x FY24/25E P/E, close to 1-SD below 5-yr avg. P/E. Maintain BUY with TP of RMB46.61 based on same 24x FY24E P/E.

- FY23 & 1Q24 mostly in-line.** Luxshare's FY23 revenue/earnings growth of 8%/20% YoY was mostly in-line with earlier preannouncement. By segment, CE/computer/auto/communication delivered +10%/-34%/+51%/+13% YoY. Mgmt. highlighted business breakthrough with key customers in datacentre connectivity products, cooling and power product solutions with potential client/order wins. Auto business saw healthy growth momentum backed by strategic partnerships and solid auto product portfolio. In addition, Luxshare also announced 1Q24 revenue/earnings growth of 4.9%/22.5% YoY with GPM of 10.7%, above market expectations.
- Better-than-feared 1H24 earnings guidance; datacenter and auto business as key growth drivers.** Luxshare pre-announced 1H24E earnings growth of 20-25% YoY, implying 18%-27% YoY growth in 2Q24E. We believe the solid 2Q24E earnings is driven by 1) accelerated demand in datacentre connectivity, 2) auto business expansion in both domestic and overseas markets, and 3) GPM recovery and expense controls.
- Attractive risk/reward at 14.2x/11.5x FY24/25E; Reiterate BUY.** We slightly adjusted FY24-25E EPS to reflect FY23 results. The stock now trades at 14.2/11.5x FY24/25E P/E, 1-SD below 5-year hist. avg P/E. Reiterate BUY with TP of RMB 46.61 based on same 24x FY24E P/E. Catalysts include top module/ iPhone share gain, datacenter/auto tier-1 business progress and Apple's multiple new product launches in the coming months.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	214,028	231,905	268,274	314,730	359,928
YoY growth (%)	39.0	8.4	15.7	17.3	14.4
Net profit (RMB mn)	9,163.1	10,952.7	13,811.9	17,059.0	20,057.4
EPS (Reported) (RMB)	1.29	1.54	1.94	2.40	2.82
YoY growth (%)	28.6	19.4	26.1	23.5	17.6
Consensus EPS (RMB)	N/A	N/A	1.97	2.42	3.08
P/E (x)	21.4	18.0	14.2	11.5	9.8
P/B (x)	3.3	2.8	2.3	1.9	1.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	17.5	17.0	17.9	18.4	18.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB46.61
(Previous TP)	RMB46.96)
Up/Downside	63.3%
Current Price	RMB28.54

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Stock Data

Mkt Cap (RMB mn)	196,457.0
Avg 3 mths t/o (RMB mn)	2,605.4
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%

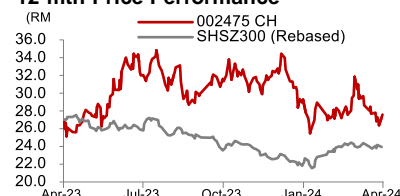
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-13.1%	-12.1%
3-mth	-4.8%	-11.0%
6-mth	-11.7%	-12.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

- Luxshare (002475 CH)-Acquisition of Pegatron's Kunshan plant to further boost iPhone assembly share gain ([link](#))
- Luxshare (002475 CH)-Recent correction overdone; Accumulate for Apple's share gain and auto/comm. Momentum ([link](#))
- Luxshare (002475 CH)-Resilient FY22/1H23 despite industry headwinds ([link](#))

Earnings Revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	268,274	314,730	359,928	279,882	329,714	N/A	-4%	-5%	N/A
Gross Profit	31,741	38,004	43,935	33,633	40,378	N/A	-6%	-6%	N/A
Operating Profit	15,869	19,286	22,442	16,191	19,791	N/A	-2%	-3%	N/A
Net profit	13,812	17,059	20,057	13,899	17,283	N/A	-1%	-1%	N/A
EPS (RMB)	1.94	2.40	2.82	1.96	2.43	N/A	-1%	-1%	N/A
Gross Margin	11.8%	12.1%	12.2%	12.0%	12.2%	N/A	-0.2 ppt	-0.2 ppt	N/A
Operating Margin	5.9%	6.1%	6.2%	5.8%	6.0%	N/A	0.1 ppt	0.1 ppt	N/A
Net Margin	5.1%	5.4%	5.6%	5.0%	5.2%	N/A	0.2 ppt	0.2 ppt	N/A

Source: Bloomberg, CMBIGM

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	268,274	314,730	359,928	277,674	321,357	325,668	-3%	-2%	11%
Gross Profit	31,741	38,004	43,935	33,766	39,588	38,725	-6%	-4%	13%
Operating Profit	15,869	19,286	22,442	15,969	19,358	21,362	-1%	0%	5%
Net profit	13,812	17,059	20,057	14,119	17,278	18,229	-2%	-1%	10%
EPS (RMB)	1.94	2.40	2.82	1.97	2.42	3.08	-2%	-1%	-8%
Gross Margin	11.8%	12.1%	12.2%	12.2%	12.3%	11.9%	-0.3 ppt	-0.2 ppt	0.3 ppt
Operating Margin	5.9%	6.1%	6.2%	5.8%	6.0%	6.6%	0.2 ppt	0.1 ppt	-0.3 ppt
Net Margin	5.1%	5.4%	5.6%	5.1%	5.4%	5.6%	0.1 ppt	0 ppt	0 ppt

Source: Bloomberg, CMBIGM

Figure 3: Revenue Breakdown

RMB mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Computer Connectors	7,857	11,280	7,492	7,717	7,949	8,187
...YoY	123%	44%	-34%	3%	3%	3%
Automotive Interconnect	4,143	6,149	9,252	13,694	19,856	28,791
...YoY	46%	48%	50%	48%	45%	45%
Comm. Interconnection	3,269	12,834	14,538	21,080	30,567	44,322
...YoY	44%	293%	13%	45%	45%	45%
Consumer Electronics	134,638	179,667	197,183	221,312	250,547	271,073
...YoY	65%	33%	10%	12%	13%	8%
Casing + Top module	49,727	74,187	78,367	93,667	104,696	104,696
Type-C (Non-Apple)	3,328	3,660	3,660	3,843	4,035	4,237
Dongle	-	-	-	-	-	-
Lightning, wireless, LCP	11,201	12,031	12,225	13,102	12,992	12,893
Acoustics/haptics	6,484	7,052	6,875	7,038	7,206	7,206
Apple Watch	11,839	16,065	18,743	21,420	23,800	23,800
AirPods	46,935	43,130	37,890	39,019	39,467	39,467
Others	5,125	23,542	39,424	43,223	58,352	78,775
Other Connectors	4,039	4,098	3,439	4,471	5,812	7,556
...YoY	97%	1%	-16%	30%	30%	30%
Total	153,946	214,028	231,905	268,274	314,730	359,928
...YoY	66%	39%	8%	16%	17%	14%

Source: Company data, CMBIGM

Figure 3: P&L forecast

RMB mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	92,501	153,946	214,028	231,905	268,274	314,730	359,928
...YoY	48%	66%	39%	8%	16%	17%	14%
Cost of sales	75,770	135,048	187,929	205,041	236,534	276,727	315,993
Gross profit	16,731	18,898	26,100	26,864	31,741	38,004	43,935
GPM (%)	18.1%	12.3%	12.2%	11.6%	11.8%	12.1%	12.2%
...YoY	34%	13%	38%	3%	18%	20%	16%
SG&A	-5,268	4,532	5,907	6,432	7,190	8,435	9,646
...% 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	9,473	11,113	12,709
...% 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	15,869	19,286	22,442
OPM (%)	8.8%	5.3%	5.2%	5.5%	5.9%	6.1%	6.2%
...YoY	42%	0%	37%	15%	23%	22%	16%
Net profit	7,225	7,071	9,163	10,953	13,812	17,059	20,057
NPM (%)	7.8%	4.6%	4.3%	4.7%	5.1%	5.4%	5.6%
...YoY	53%	-2%	30%	20%	26%	24%	18%

Source: Company data, CMBIGM

Valuation

Reiterate BUY with new TP of RMB 46.61

We derived our new 12M TP of RMB 46.61 based on same 24x FY24E P/E. We believe this is justified as Luxshare continues to deliver strong earnings growth, market share gain and product expansion to capture datacentre, Apple and NEV opportunities in the next 3-5 years.

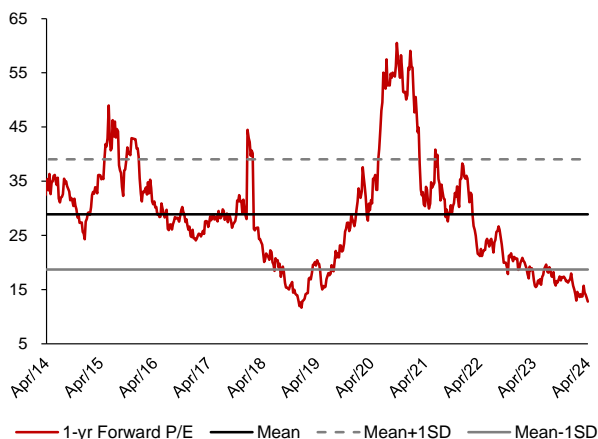
Upcoming catalysts include top module/ iPhone share gain, datacenter/auto tier-1 business progress and Apple's multiple new product launches in the coming months.

Figure 4: 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
A-listed components												
Luxshare	002475 CH	BUY	28,268	28.54	46.6	63%	18.0	14.2	2.8	2.3	17.0	17.9
Goertek	002241 CH	BUY	7,143	15.15	17.8	18%	47.3	21.3	1.6	1.5	3.5	7.1
O-film	002456 CH	NR	3,992	8.88	NA	NA	-	41.7	-	-	(9.9)	12.3
Sunway	300136 CH	NR	2,421	18.13	NA	NA	22.7	17.3	2.4	2.1	10.5	11.8
BOE	000725 CH	NR	22,256	4.32	NA	NA	47.5	25.0	1.2	1.2	1.9	4.8
Hans Laser	002008 CH	NR	2,931	20.19	NA	NA	23.0	17.2	1.4	1.3	6.2	7.6
Lens Tech	300433 CH	NR	9,283	13.50	NA	NA	21.8	17.0	1.5	1.4	6.8	8.3
Everwin	300115 CH	NR	1,716	10.33	NA	NA	72.2	18.3	2.1	1.9	2.2	10.3
Average							36.1	21.6	1.7	1.6	4.0	9.3
H-listed components												
FIT Hon Teng	6088 HK	BUY	1,964	2.11	2.4	15%	15.0	9.6	0.8	0.7	5.1	7.6
AAC Tech	2018 HK	HOLD	3,773	24.65	22.4	-9%	35.1	19.2	1.2	1.1	3.3	5.8
Sunny Optical	2382 HK	HOLD	4,971	35.55	47.3	33%	31.6	25.7	1.5	1.5	4.8	5.7
Tongda	698 HK	BUY	91	0.07	0.1	92%	(0.6)	3.2	0.1	0.1	(17.6)	3.1
BYDE	285 HK	BUY	7,021	24.40	46.5	91%	12.2	8.9	1.7	2.6	13.7	29.0
Q tech	1478 HK	BUY	493	3.26	3.9	21%	11.7	8.9	0.7	0.7	6.1	7.6
TK Group	2283 HK	BUY	162	1.52	2.8	84%	6.1	4.5	0.7	0.7	12.3	15.3
SMIC	981 HK	NR	22,777	15.08	NA	NA	17.5	32.6	0.8	0.7	4.5	2.3
YOFC	6869 HK	NR	1,927	8.94	NA	NA	5.3	5.8	0.6	0.5	11.8	10.1
Cowell	1415 HK	NR	1,878	17.24	NA	NA	28.6	18.3	4.4	3.7	14.4	21.9
Average							16.2	13.7	1.2	1.2	5.8	10.8

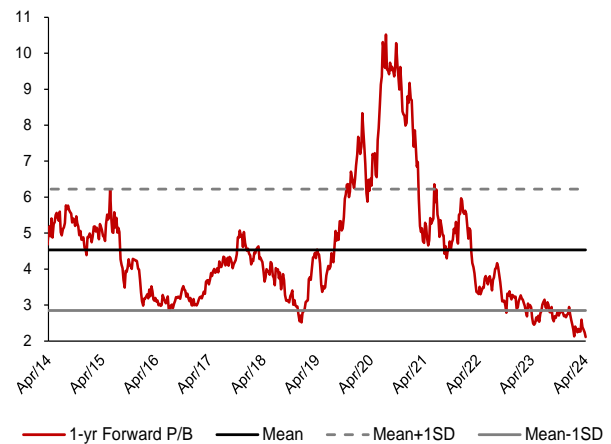
Source: Bloomberg, CMBIGM

Figure 5: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 6: 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	268,274	314,730	359,928
Cost of goods sold	(135,048)	(187,929)	(205,041)	(236,534)	(276,727)	(315,993)
Gross profit	18,898	26,100	26,864	31,741	38,004	43,935
Selling expense	(790)	(831)	(889)	(1,019)	(1,196)	(1,368)
Admin expense	0	0	0	0	0	0
SG&A expense	(3,742)	(5,076)	(5,543)	(6,170)	(7,239)	(8,278)
R&D expense	(6,642)	(8,447)	(8,189)	(9,473)	(11,113)	(12,709)
Others	(1,101)	(3,100)	(3,632)	(3,437)	(3,537)	(3,640)
Other income	854	602	825	805	944	1,080
Gain/loss on financial assets at FVTPL	(116)	14	210	210	210	210
Investment gain/loss	689	998	1,771	1,771	1,771	1,771
Other gains/(losses)	118	895	1,442	1,442	1,442	1,442
EBIT	8,167	11,154	12,860	15,869	19,286	22,442
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	15,894	19,312	22,467
Income tax	(322)	(667)	(642)	(792)	(962)	(1,119)
After tax profit	7,821	10,491	12,243	15,102	18,350	21,348
Minority interest	750	1,328	1,291	1,291	1,291	1,291
Net profit	7,071	9,163	10,953	13,812	17,059	20,057
Gross dividends	771	927	0	0	0	0
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	72,309	88,292	94,228	129,298	148,346	190,162
Cash & equivalents	14,205	19,367	33,620	40,700	66,047	78,817
Account receivables	31,931	26,993	23,766	35,476	33,934	45,368
Inventories	20,901	37,363	29,758	47,673	42,915	60,527
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	194,907	212,184	252,543
Current liabilities	64,831	74,631	74,835	95,573	95,791	116,093
Short-term borrowings	11,920	14,912	20,514	21,514	22,514	23,514
Account payables	45,651	50,302	46,401	66,139	65,357	84,659
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	112,445	112,663	132,965
Share capital	7,050	7,100	7,148	7,148	7,148	7,148
Retained earnings	24,041	32,288	42,027	55,839	72,898	92,955
Other reserves	4,196	5,952	7,132	7,132	7,132	7,132
Total shareholders equity	45,783	58,784	70,285	84,093	101,152	121,210
Minority interest	10,494	45,343	13,975	13,975	13,975	13,975
Total equity and liabilities	120,572	148,384	161,992	196,539	213,815	254,174

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,143	11,158	12,885	15,894	19,312	22,467
Depreciation & amortization	5,188	7,800	10,320	9,154	8,772	8,457
Tax paid	(322)	(667)	(642)	(792)	(962)	(1,119)
Change in working capital	(6,166)	(6,612)	4,281	(9,886)	5,517	(9,745)
Others	120	381	119	(261)	(378)	(476)
Net cash from operations	7,285	12,728	27,605	14,901	33,223	20,703
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	36,764	62,112
Exchange difference	(58)	833	256	0	0	0
Cash at the end of the year	8,922	17,312	29,684	36,764	62,112	74,882
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	66.4%	39.0%	8.4%	15.7%	17.3%	14.4%
Gross profit	12.9%	38.1%	2.9%	18.2%	19.7%	15.6%
EBIT	(0.0%)	36.6%	15.3%	23.4%	21.5%	16.4%
Net profit	(2.1%)	29.6%	19.5%	26.1%	23.5%	17.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	12.3%	12.2%	11.6%	11.8%	12.1%	12.2%
Return on equity (ROE)	18.4%	17.5%	17.0%	17.9%	18.4%	18.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.1	1.2	1.3	1.4	1.5	1.6
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	27.6	21.4	18.0	14.2	11.5	9.8
P/B	4.3	3.3	2.8	2.3	1.9	1.6
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.

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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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