

Luxshare (002475 CH)

Resilient 3Q23 despite macro headwinds; Positive outlook for auto and comm. business

Luxshare posted 3Q23 revenue/NP growth of -8.5%/+15.4% YoY, and pre-announced FY23E earnings growth of 17.5-22.5% YoY, implying 31% YoY in 4Q23E. 3Q23 earnings was largely in-line with the profit alert earlier, while weaker 3Q revenue was mainly due to 1) structural changes of communications product portfolio, 2) lack of wearables product launches, 3) SiP products delivery changes, 4) weaker Mini-LED sales, and 5) customer inventory corrections. Looking forward, despite ongoing macro headwinds, we believe that Luxshare is well-positioned to benefit from gain share in iPhone/MacBook/iPad/Watch OEM/components, and capture opportunities in automobile tier-1 and comm. businesses. We adjusted FY23-24E EPS by -4/-2% to factor in 3Q23 results and better margin. The stock now trades at 20.4/16.2x FY23/24E P/E, close to 1-SD below 5-yr average P/E. Maintain BUY with new TP of RMB46.96 based on rollover 24x FY24E P/E.

- **3Q23 mostly in-line; Weaker topline due to inventory correction, SiP delivery changes, and slower wearables/Mini-LED.** Despite weak smartphone/CE demand, Luxshare delivered a solid 3Q23 with NP growth of 15.4% YoY. Mgmt. attributed 3Q revenue decline to inventory correction, SiP delivery changes, and product portfolio optimization in comm. segment and weaker wearables/mini-LED sales. Backed by better revenue mix, GPM improved YoY/QoQ to 13.8% in 3Q23 (vs. 10.0%/11.3% in 1Q/2Q23).
- **FY23 Outlook: multiple product share gain and accelerated auto/comm segments.** Luxshare pre-announced FY23E net income growth at 17.5-22.5% YoY, implying 31% YoY 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. In addition, comm./auto tier-1 business are poised to deliver solid growth and better margins with order wins and product portfolio expansion in FY24/25E.
- **Attractive risk/reward; Reiterate BUY.** We believe Luxshare's operating efficiency will continue to improve with economies of scale in iPhone/MacBook/iPad OEM/components, and growth momentum in auto tier-1 business and communications segment will boost revenue upside in FY24/25E. We slightly adjusted FY23-25E EPS to reflect 3Q23 results and better profitability. The stock now trades at 20.4/16.2x FY23/24E P/E, close to 1-SD below 5-year hist. avg P/E. Reiterate BUY with new TP of RMB 46.96 based on rollover 24x FY24E P/E. Catalysts include top module/iPhone share gain and comm./auto tier-1 business progress.

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	20.4	16.2	13.0
P/B (x)	6.4	4.2	2.2	2.0	1.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	18.4	17.5	13.8	13.0	14.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB46.96
(Previous TP)	RMB44.9)
Up/Downside	48.5%
Current Price	RMB31.62

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Stock Data

Mkt Cap (RMB mn)	224,502.0
Avg 3 mths t/o (RMB mn)	1,534.4
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%

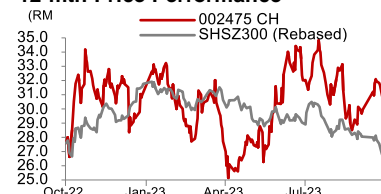
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	4.9%	11.7%
3-mth	-1.2%	7.5%
6-mth	14.1%	31.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Recent Reports:

1. Luxshare (002475 CH)-Recent correction overdone; Accumulate for Apple's share gain and auto/comm. Momentum ([link](#))
2. Luxshare (002475 CH)-Resilient FY22/1H23 despite industry headwinds ([link](#))

Earnings Revision

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	233,706	279,882	329,714	259,038	302,218	342,338	-10%	-7%	-4%
Gross Profit	27,964	33,633	40,378	30,180	36,000	41,763	-7%	-7%	-3%
Operating Profit	13,097	16,191	19,791	13,528	16,565	19,752	-3%	-2%	0%
Net profit	10,990	13,899	17,283	11,395	14,250	17,246	-4%	-2%	0%
EPS (RMB)	1.55	1.96	2.43	1.60	2.01	2.43	-4%	-2%	0%
Gross Margin	12.0%	12.0%	12.2%	11.7%	11.9%	12.2%	0.3 ppt	0.1 ppt	0 ppt
Operating Margin	5.6%	5.8%	6.0%	5.2%	5.5%	5.8%	0.4 ppt	0.3 ppt	0.2 ppt
Net Margin	4.7%	5.0%	5.2%	4.4%	4.7%	5.0%	0.3 ppt	0.3 ppt	0.2 ppt

Source: Bloomberg, CMBIGM

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	233,706	279,882	329,714	248,595	293,150	343,743	-6%	-5%	-4%
Gross Profit	27,964	33,633	40,378	28,962	35,076	41,605	-3%	-4%	-3%
Operating Profit	13,097	16,191	19,791	12,974	16,634	20,335	1%	-3%	-3%
Net profit	10,990	13,899	17,283	11,311	14,579	18,000	-3%	-5%	-4%
EPS (RMB)	1.55	1.96	2.43	1.60	2.04	2.51	-3%	-4%	-3%
Gross Margin	12.0%	12.0%	12.2%	11.7%	12.0%	12.1%	0.3 ppt	0.1 ppt	0.1 ppt
Operating Margin	5.6%	5.8%	6.0%	5.2%	5.7%	5.9%	0.4 ppt	0.1 ppt	0.1 ppt
Net Margin	4.7%	5.0%	5.2%	4.6%	5.0%	5.2%	0.2 ppt	0 ppt	0 ppt

Source: Bloomberg, CMBIGM

Figure 3: Revenue Breakdown

RMB mn	FY21	FY22	FY23E	FY24E	FY25E
Computer Connectors	7,857	11,280	11,280	11,618	11,967
...YoY	123%	44%	0%	3%	3%
Automotive Interconnect	4,143	6,149	9,532	14,107	20,455
...YoY	46%	48%	55%	48%	45%
Comm. Interconnection	3,269	12,834	18,610	26,984	39,127
...YoY	44%	293%	45%	45%	45%
Consumer Electronics	134,638	179,667	189,777	221,312	250,547
...YoY	65%	33%	6%	17%	13%
Casing + Top module	49,727	74,187	78,367	93,667	104,696
Type-C (Non-Apple)	3,328	3,660	3,660	3,843	4,035
Dongle	-	-	-	-	-
Lightning, wireless, LCP	11,201	12,031	12,225	13,102	12,992
Acoustics/haptics	6,484	7,052	6,875	7,038	7,206
Apple Watch	11,839	16,065	18,743	21,420	23,800
AirPods	46,935	43,130	37,890	39,019	39,467
Others	5,125	23,542	32,017	43,223	58,352
Other Connectors	4,039	4,098	4,508	5,860	7,618
...YoY	97%	1%	10%	30%	30%
Total	153,946	214,028	233,706	279,882	329,714
...YoY	66%	39%	9%	20%	18%

Source: Company data, CMBIGM

Figure 3: P&L forecast

RMB mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	92,501	153,946	214,028	233,706	279,882	329,714
...YoY	48%	66%	39%	9%	20%	18%
Cost of sales	75,770	135,048	187,929	205,741	246,248	289,335
Gross profit	16,731	18,898	26,100	27,964	33,633	40,378
GPM (%)	18.1%	12.3%	12.2%	12.0%	12.0%	12.2%
...YoY	34%	13%	38%	7%	20%	20%
SG&A	-5,268	4,532	5,907	6,018	7,501	8,836
...% of rev	-5.7%	2.9%	2.8%	2.6%	2.7%	2.7%
R&D	5,745	6,642	8,447	8,647	10,356	12,199
...% of rev	6.2%	4.3%	3.9%	3.7%	3.7%	3.7%
Operating profit	8,168	8,167	11,154	13,097	16,191	19,791
OPM (%)	8.8%	5.3%	5.2%	5.6%	5.8%	6.0%
...YoY	42%	0%	37%	17%	24%	22%
Net profit	7,225	7,071	9,163	10,990	13,899	17,283
NPM (%)	7.8%	4.6%	4.3%	4.7%	5.0%	5.2%
...YoY	53%	-2%	30%	20%	26%	24%

Source: Company data, CMBIGM

Valuation

Reiterate BUY with new TP of RMB 46.96

We derived our new 12M TP of RMB 46.96 based on rollovered 24x FY24E P/E (vs prior 28x FY23E P/E for softer consumer electronics market). We believe this is justified as Luxshare continues to deliver strong earnings growth, market share gain and product expansion to capture Apple and NEV opportunities in the next 3-5 years.

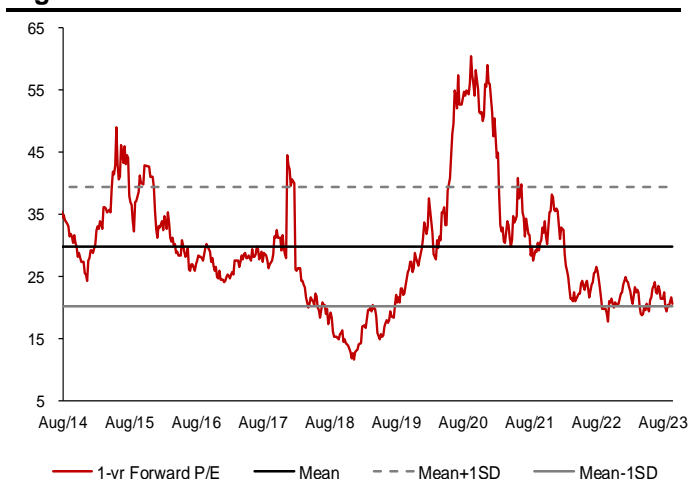
Upcoming catalysts include share gain in Apple products, MR device ramp up and auto tier-1 progress. Major risks include weaker iPhone/AirPods demand, weaker yield improvement and slower integration of acquired businesses.

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	30,892	31.62	47.0	49%	20.4	16.2	2.2	2.0	13.8	13.0
Goertek	002241 CH	BUY	7,986	17.08	17.6	3%	38.8	19.0	1.8	1.7	4.7	9.1
O-film	002456 CH	NR	4,716	10.59	NA	NA	-	-	11.9	11.1	(33.3)	(19.1)
Sunway	300136 CH	NR	2,936	22.20	NA	NA	26.3	20.4	2.9	2.5	11.4	13.3
BOE	000725 CH	NR	19,106	3.69	NA	NA	20.8	11.8	1.0	0.9	4.0	8.7
Hans Laser	002008 CH	NR	3,036	21.11	NA	NA	19.0	14.3	1.4	1.3	7.6	9.6
Lens Tech	300433 CH	NR	8,501	12.48	NA	NA	19.9	15.1	1.3	1.3	6.8	8.5
Everwin	300115 CH	NR	1,554	9.45	NA	NA	26.0	12.6	1.8	1.6	7.1	13.2
Average							24.4	15.6	3.1	2.8	2.5	7.0
H-listed components												
FIT Hon Teng	6088 HK	BUY	1,109	1.19	2.1	73%	7.9	6.4	0.4	0.4	5.2	6.3
AAC Tech	2018 HK	HOLD	2,114	13.80	14.0	2%	24.3	13.9	0.7	0.6	2.7	4.6
Sunny Optical	2382 HK	HOLD	9,055	64.60	78.3	21%	34.9	22.6	2.7	2.5	7.8	11.2
Tongda	698 HK	BUY	124	0.10	0.2	70%	5.6	3.4	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	10,266	35.65	42.0	18%	20.8	16.8	2.5	2.2	11.9	13.0
Q tech	1478 HK	BUY	568	3.75	3.6	-4%	13.5	7.0	0.8	0.7	5.9	10.3
TK Group	2283 HK	BUY	147	1.38	3.1	124%	4.9	-	0.7	-	13.3	17.0
SMIC	981 HK	NR	31,386	21.05	NA	NA	22.2	21.9	1.1	0.9	4.7	4.5
YOFC	6869 HK	NR	2,175	10.14	NA	NA	5.5	4.9	0.7	0.6	11.6	11.8
Cowell	1415 HK	NR	1,872	17.24	NA	NA	27.9	16.3	4.4	3.4	15.2	22.9
Average							16.7	12.6	1.4	1.3	8.1	10.5

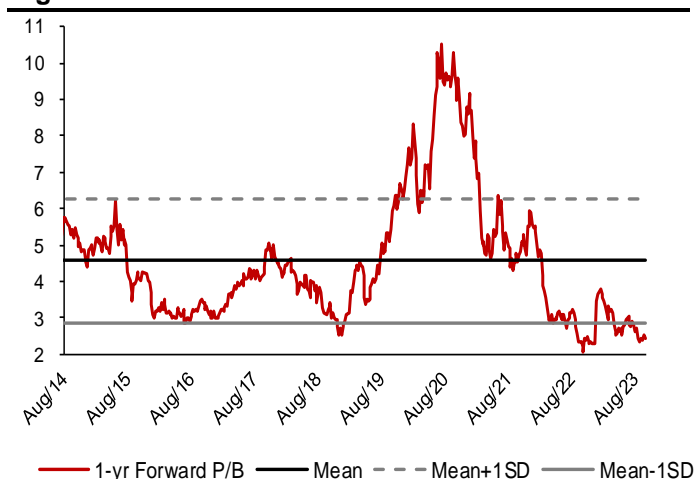
Source: Bloomberg, CMBIGM

Figure 5: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 6: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	92,501	153,946	214,028	233,706	279,882	329,714
Cost of goods sold	(75,770)	(135,048)	(187,929)	(205,741)	(246,248)	(289,335)
Gross profit	16,731	18,898	26,100	27,964	33,633	40,378
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
EBIT	8,168	8,167	11,154	13,097	16,191	19,791
Net Interest income/(expense)	(905)	(555)	(883)	(600)	(660)	(726)
Other income/expense	(32)	(25)	4	4	4	4
Pre-tax profit	8,136	8,143	11,158	13,101	16,195	19,794
Income tax	(645)	(322)	(667)	(784)	(969)	(1,184)
After tax profit	7,491	7,821	10,491	12,317	15,226	18,611
Minority interest	266	750	1,328	1,328	1,328	1,328
Net profit	7,225	7,071	9,163	10,990	13,899	17,283
Gross dividends	774	771	927	1,112	1,406	1,748

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	43,396	72,309	88,292	114,650	135,118	148,801
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
Non-current assets	26,617	48,263	60,092	51,843	53,308	53,308
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
Total assets	70,013	120,572	148,384	166,493	188,426	202,109
Current liabilities	33,593	64,831	74,631	81,105	97,313	105,104
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
Non-current liabilities	5,513	9,959	14,969	14,969	14,969	14,969
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
Total liabilities	39,106	74,789	89,600	96,074	112,282	120,073
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
Total shareholders equity	30,907	45,783	58,784	70,389	76,144	82,036
Minority interest	2,805	10,494	45,343	45,343	45,343	45,343
Total equity and liabilities	70,013	120,572	148,384	166,493	188,426	202,109

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
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)
Net cash from operations	6,873	7,285	12,728	16,898	21,288	21,288
Investing						
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
Net cash from investing	(9,148)	(8,380)	(13,326)	(7,000)	(7,000)	(7,000)
Financing						
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)
Net cash from financing	6,786	(390)	8,156	(1,855)	(2,099)	(2,460)
Net change in cash						
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
Cash at the end of the year	10,465	8,922	17,312	24,986	37,440	37,440
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	44.0	41.4	26.7	20.4	16.2	13.0
P/B	10.4	6.4	4.2	2.2	2.0	1.7
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.

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

CMB International Global Markets Limited

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