

# Luxshare (002475 CH)

## 2Q19 beats; Strong momentum into 2H19E

**Summary.** Luxshare reported 2Q19 revenue/net profit growth of 88%/80% YoY, beating consensus and mid-point of guidance of 60-93% YoY, mainly due to stronger communication and consumer electronics, despite slightly lower GPM. Luxshare also guided a strong 9M19 NP with 50-60% YoY, implying 18-38% YoY for 3Q19 NP, in-line with our/consensus estimates. Luxshare is our A-share top pick given its share gain in iPhone/Airpod in 2H19E and major 5G beneficiary into 2020. Reiterate BUY with TP of RMB32.1 based on 25x FY20E P/E.

- **Strong 2Q19 revenue across all segment.** Luxshare's 2Q19 revenue growth accelerated to 88% YoY, vs 67% YoY in 1Q. By segment, consumer electronics segment was the key driver with 99% YoY (78% of 1H19 sales), thanks to share gain in AirPod/acoustics/haptics and expanding offerings into LCP antenna and wireless charging modules. In addition, communications/automotive/other connectors also delivered robust growth with 52%/46%/164% YoY in 1H19E. GPM was flattish at 19.5% given higher mix of consumer electronics, while better operating leverage was partly offset by higher effective tax rate of 15.8% in 2Q19 (vs 9.3% in 2Q18).
- **New projects on track to boost growth.** We believe Luxshare will continue to broaden penetration into Apple supply chain in 2H19E ranging from Macbook/ iPad to iPhone and wearables (Watch/ AirPods). Despite iPhone weakness in 2019, we expect share gain, content growth to boost earnings growth in 2H19E. We also expect Luxshare to benefit from strong Airpod shipment and upgrade with 55mn/ 80mn/90mn units in FY19/20/21E.
- **Outlook: major 5G beneficiary and limited trade war impact.** Looking ahead, we believe Luxshare is well placed to capture 5G opportunities in 2020-21E given its solid product roadmap, including 1) massive MIMO and new compact filter-antenna and 2) optical solutions in datacenter/telecom equipment. In addition, Luxshare is aggressively expanding capacity in Vietnam in order to mitigate tariff impact in 2H19E/2020E.
- **Reiterate BUY with TP of RMB32.1.** We fine-tuned our FY19-21E EPS estimates, to factor in stronger revenue growth and higher tax rate. We maintained our TP RMB32.1, based on 25x FY20E P/E, 11% discount to 5-year average of 28x. Upcoming catalysts include launch of new Airpod and China 5G service launch.

### Earnings Summary

(YE31Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	22,826	35,850	51,940	68,638	85,941
YoY growth (%)	65.9	57.1	44.9	32.1	25.2
Net income (RMB mn)	1,691	2,723	3,815	5,283	6,885
EPS (RMB)	0.53	0.66	0.93	1.28	1.67
YoY growth (%)	(2.3)	24.2	40.1	38.5	30.3
P/E (x)	47.7	38.4	27.4	19.8	15.2
P/B (x)	5.8	6.3	5.2	4.1	3.3
Yield (%)	0.2	0.2	0.3	0.4	0.5
ROE (%)	12	16	18.8	20.9	21.7
Net gearing (%)	10	29	26	28	32

Source: Company data, CMBIS estimate

**BUY (Maintain)**

Target Price **RMB32.1**  
 (Previous TP **RMB32.1**)  
 Current Price **RMB25.43**  
 Up/Downside **+26.2%**

### China Technology Sector

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### Stock Data

Mkt. Cap. (RMBmn)	136,025
Avg. 3mths t/o (RMBmn)	1,103.93
52W High/Low (RMB)	25.44/9.85
Total Issued Shares (mn)	5,349.0

Source: Bloomberg

### Shareholding Structure

Luxshare Ltd	45.11%
HK Securities Clearing	5.62%
Boyuan Hongcheng	2.83%

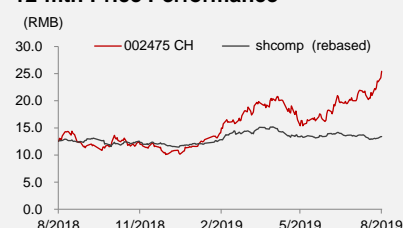
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	27.2%	29.1%
3-mth	65.3%	64.8%
6-mth	69.6%	62.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: BDO

## Earnings Revision

Figure 1: 2Q19 results review

RMB mn	2Q18	1Q19	2Q19	QoQ	YoY	Consensus 2Q19E	Diff %
Revenue	6,622	9,019	12,422	38%	88%	10,957	13%
Gross Profit	1,305	1,704	2,421	42%	86%	2,210	10%
Operating Profit	548	737	1,152	56%	110%	1,031	12%
Net profit	514	724	1,091	51%	112%	1,007	8%
EPS (RMB)	493	616	886	44%	80%	861	3%
Gross Margin	19.7%	18.9%	19.5%	0.6 ppt	-0.2 ppt	20.2%	-0.7 ppt
Operating Margin	8.3%	8.2%	9.3%	1.1 ppt	1 ppt	9.4%	-0.1 ppt
Net Margin	7.4%	6.8%	7.1%	0.3 ppt	-0.3 ppt	7.9%	-0.7 ppt

Source: Company data, Bloomberg, CMBIS

Figure 2: Earnings revision

RMB mn	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	51,940	68,638	85,941	49,387	64,851	78,128	5%	6%	10%
Gross Profit	10,845	14,393	18,128	10,292	13,567	16,434	5%	6%	10%
Operating Profit	4,735	6,459	8,340	4,572	6,281	7,796	4%	3%	7%
Net profit	3,815	5,283	6,885	3,822	5,288	6,588	0%	0%	5%
EPS (RMB)	0.93	1.28	1.67	0.93	1.29	1.60	0%	0%	5%
Gross Margin	20.9%	21.0%	21.1%	20.8%	20.9%	21.0%	0 ppt	0 ppt	0.1 ppt
Operating Margin	9.1%	9.4%	9.7%	9.3%	9.7%	10.0%	-0.1 ppt	-0.3 ppt	-0.3 ppt
Net Margin	7.3%	7.7%	8.0%	7.7%	8.2%	8.4%	-0.4 ppt	-0.5 ppt	-0.4 ppt

Sources: Company data, CMBIS

Figure 3: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	51,940	68,638	85,941	49,865	63,288	76,232	4%	8%	13%
Gross Profit	10,845	14,393	18,128	10,252	13,129	15,761	6%	10%	15%
Operating Profit	4,735	6,459	8,340	4,680	6,220	7,756	1%	4%	8%
Net profit	3,815	5,283	6,885	3,889	5,108	6,299	-2%	3%	9%
EPS (RMB)	0.93	1.28	1.67	0.77	1.02	1.22	20%	26%	37%
Gross Margin	20.9%	21.0%	21.1%	20.6%	20.7%	20.7%	0.3 ppt	0.2 ppt	0.4 ppt
Operating Margin	9.1%	9.4%	9.7%	9.4%	9.8%	10.2%	-0.3 ppt	-0.4 ppt	-0.5 ppt
Net Margin	7.3%	7.7%	8.0%	7.8%	8.1%	8.3%	-0.5 ppt	-0.4 ppt	-0.3 ppt

Source: Bloomberg, CMBIS

Figure 4: Revenue breakdown

RMB mn	FY17	FY18	FY19E	FY20E	FY21E
<b>Computer Connectors</b>	<b>4,348</b>	<b>3,733</b>	<b>3,360</b>	<b>3,192</b>	<b>3,032</b>
...YoY	-6%	-14%	-10%	-5%	-5%
<b>Automotive Interconnect</b>	<b>1,131</b>	<b>1,728</b>	<b>2,506</b>	<b>3,508</b>	<b>4,735</b>
...YoY	25%	53%	45%	40%	35%
<b>Comm. Interconnection</b>	<b>1,655</b>	<b>2,152</b>	<b>3,012</b>	<b>4,217</b>	<b>5,904</b>
...YoY	57%	30%	40%	40%	40%
<b>Consumer Electronics</b>	<b>15,188</b>	<b>26,807</b>	<b>40,487</b>	<b>53,858</b>	<b>66,474</b>
...YoY	120%	76%	51%	33%	23%
Type-C (Non-Apple)	2,300	2,500	2,750	3,025	3,328
Dongle	3,600	2,000	600	-	-
Lightning, wireless, LCP	3,000	6,500	9,600	10,390	11,201
Acoustics/haptics	1,260	2,592	4,783	5,913	6,077
Apple Watch	1,800	1,500	1,550	1,800	2,000
Airpod	1,000	8,237	16,335	26,400	35,640
Others	2,228	3,478	4,869	6,330	8,228
<b>Other Connectors</b>	<b>504</b>	<b>1,431</b>	<b>2,575</b>	<b>3,863</b>	<b>5,795</b>
...YoY	73%	184%	80%	50%	50%
<b>Total</b>	<b>22,826</b>	<b>35,850</b>	<b>51,940</b>	<b>68,638</b>	<b>85,941</b>
...YoY	66%	57%	45%	32%	25%

Source: Company data, CMBIS

Figure 5: P&amp;L forecast

RMB mn	FY17	FY18	1Q19	2Q19	3Q19E	4Q19E	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>22,826</b>	<b>35,850</b>	<b>9,019</b>	<b>12,422</b>	<b>13,137</b>	<b>17,362</b>	<b>51,940</b>	<b>68,638</b>	<b>85,941</b>
...YoY	66%	57%	67%	88%	30%	27%	45%	32%	25%
Cost of sales	18,260	28,304	7,315	10,001	10,286	13,493	41,094	54,245	67,813
<b>Gross profit</b>	<b>4,566</b>	<b>7,546</b>	<b>1,704</b>	<b>2,421</b>	<b>2,851</b>	<b>3,869</b>	<b>10,845</b>	<b>14,393</b>	<b>18,128</b>
GPM (%)	<b>20.0%</b>	<b>21.0%</b>	<b>18.9%</b>	<b>19.5%</b>	<b>21.7%</b>	<b>22.3%</b>	<b>20.9%</b>	<b>21.0%</b>	<b>21.1%</b>
...YoY	54%	65%	60%	86%	29%	31%	44%	33%	26%
SG&A	891	1,288	259	353	355	608	1,575	2,081	2,606
...% of rev	4%	4%	3%	3%	3%	4%	3%	3%	3%
R&D	1,542	2,515	688	890	1,038	990	3,606	4,765	5,966
...% of rev	7%	7%	8%	7%	8%	6%	7%	7%	7%
<b>Operating profit</b>	<b>2,052</b>	<b>3,294</b>	<b>737</b>	<b>1,152</b>	<b>1,327</b>	<b>1,876</b>	<b>4,735</b>	<b>6,459</b>	<b>8,340</b>
OPM (%)	9.0%	9.2%	8.2%	9.3%	10.1%	10.8%	9.1%	9.4%	9.7%
...YoY	57%	60%	96%	110%	26%	42%	44%	36%	29%
<b>Net profit</b>	<b>1,691</b>	<b>2,723</b>	<b>616</b>	<b>886</b>	<b>1,116</b>	<b>1,555</b>	<b>3,815</b>	<b>5,283</b>	<b>6,885</b>
NPM (%)	7.4%	7.6%	6.8%	7.1%	8.5%	9.0%	7.3%	7.7%	8.0%
...YoY	46%	61%	-42%	44%	26%	39%	40%	38%	30%

Source: Company data, CMBIS

## Valuation

### Reiterate BUY with TP of Rmb32.1 (26% upside)

We derived our 12m TP of RMB32.0 based on 25x FY20E P/E, 11% discount to its 5-year historical average of 28.2x. We believe this is justified as Luxshare continues to deliver strong earnings growth, market share gain and product expansion to capture 5G and wireless opportunities in next 3-5 years.

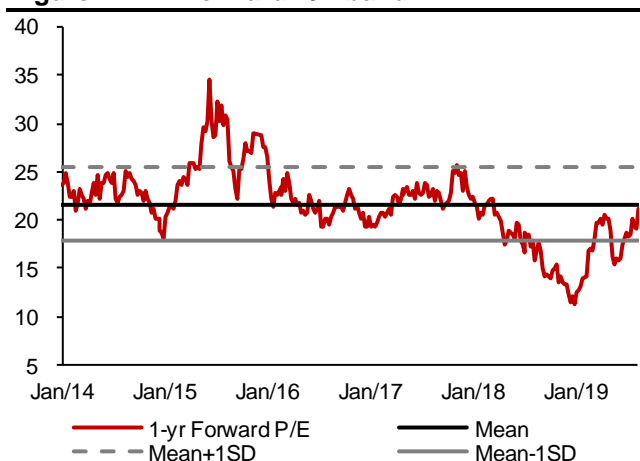
Upcoming catalysts include launch of new-gen Airpod and iPhone in 2H19E and China 5G commercial service launch. Major risks include weaker Airpod demand, weaker yield improvement for acoustics/haptics and slower integration of acquired businesses.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY20E	ROE (%) FY19E	ROE (%) FY20E
<b>A-listed components</b>												
Luxshare	002475 CH	Buy	19,256	25.43	32.1	26%	27.4	19.8	5.2	4.1	18.8	20.9
Goertek	002241 CH	Hold	6,050	13.17	9.1	-31%	34.7	30.6	2.6	2.5	7.6	8.1
O-film	002456 CH	NR	3,860	10.05	NA	NA	20.1	13.4	2.6	2.2	14.8	14.8
Sunway	300136 CH	NR	4,544	33.14	NA	NA	26.8	21.0	6.5	5.0	25.9	25.3
BOE	000725 CH	NR	19,055	3.90	NA	NA	32.2	22.8	1.4	1.4	4.5	5.9
Hans Laser	002008 CH	NR	4,782	31.66	NA	NA	27.4	16.2	3.6	3.1	12.3	16.7
Lens Tech	300433 CH	NR	4,970	8.94	NA	NA	20.6	15.5	2.0	1.8	8.6	10.3
Everwin	300115 CH	NR	1,667	12.94	NA	NA	33.2	23.0	2.4	2.2	7.6	10.2
Holitech	002217 CH	NR	2,453	5.56	NA	NA	7.9	9.4	1.4	1.2	12.5	12.6
<b>Average</b>							<b>25.6</b>	<b>19.1</b>	<b>3.1</b>	<b>2.6</b>	<b>12.5</b>	<b>13.9</b>
<b>H-listed components</b>												
FIT Hon Teng	6088 HK	Buy	2,892	3.35	3.8	13%	11.1	9.8	1.3	1.2	12.1	12.2
AAC Tech	2018 HK	Sell	5,931	38.50	43.3	12%	16.0	13.4	2.4	2.4	15.0	17.8
Sunny Optical	2382 HK	Buy	14,766	105.60	114.0	8%	30.3	21.9	8.7	6.8	28.8	31.2
Tongda	698 HK	Buy	454	0.55	0.8	38%	4.3	3.6	0.5	0.5	11.7	12.8
BYDE	285 HK	Hold	3,533	12.30	11.8	-4%	11.8	10.4	1.4	1.3	12.0	12.3
Q tech	1478 HK	Buy	1,130	7.76	9.5	23%	19.1	14.7	3.1	2.6	16.4	18.0
TK Group	2283 HK	Buy	354	3.33	4.5	35%	7.2	6.0	2.1	2.1	29.7	35.7
Truly	732 HK	NR	428	1.02	NA	NA	4.4	4.5	0.4	0.4	5.1	8.3
SMIC	981 HK	NR	5,558	8.63	NA	NA	84.6	55.0	-	-	-	-
YOFC	6869 HK	NR	2,566	13.26	NA	NA	12.2	9.4	1.1	1.0	10.2	9.6
O-NET	877 HK	NR	427	4.08	NA	NA	10.3	8.6	1.2	1.1	12.5	13.3
Cowell	1415 HK	NR	141	1.33	NA	NA	9.4	6.5	0.4	0.4	5.8	5.8
<b>Average</b>							<b>18.4</b>	<b>13.7</b>	<b>2.1</b>	<b>1.8</b>	<b>14.5</b>	<b>16.1</b>

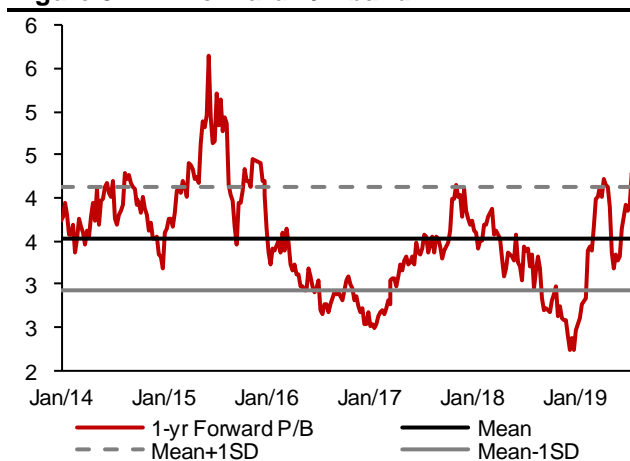
Source: Bloomberg, CMBIS

Figure 7: 12M forward P/E band



Source: Bloomberg, CMB

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>22,826</b>	<b>35,850</b>	<b>51,940</b>	<b>68,638</b>	<b>85,941</b>
Cost of sales	18,260	28,304	41,094	54,245	67,813
<b>Gross profit</b>	<b>4,566</b>	<b>7,546</b>	<b>10,845</b>	<b>14,393</b>	<b>18,128</b>
Selling exp	315	388	464	614	768
Admin exp (excl. R&D)	576	900	1,110	1,467	1,837
R&D exp	1,542	2,515	3,606	4,765	5,966
Finance costs	203	302	378	415	457
Other operating exp.	(123)	147	552	673	759
<b>Operating profit</b>	<b>2,052</b>	<b>3,294</b>	<b>4,735</b>	<b>6,459</b>	<b>8,340</b>
Other non-oper exp.	(14)	(12)	(42)	(42)	(42)
<b>Pre-tax profit</b>	<b>2,039</b>	<b>3,282</b>	<b>4,692</b>	<b>6,417</b>	<b>8,297</b>
Income tax expense	291	469	696	952	1,231
Minority interests	57	91	181	181	181
<b>Net profit to shareholders</b>	<b>1,691</b>	<b>2,723</b>	<b>3,815</b>	<b>5,283</b>	<b>6,885</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Net profit</b>	<b>1,748</b>	<b>2,813</b>	<b>3,996</b>	<b>5,465</b>	<b>7,066</b>
Depreciation/amortization	781	1,212	982	1,452	1,924
Change in working capital	(2,407)	(1,273)	(1,650)	(793)	(4,357)
Others	48	390	378	415	457
<b>Net cash from operating</b>	<b>169</b>	<b>3,142</b>	<b>3,706</b>	<b>6,539</b>	<b>5,090</b>
Capex	3,527	5,156	5,500	6,000	6,000
Other	(6,123)	(10,084)	(11,000)	(12,000)	(12,000)
<b>Net cash from investing</b>	<b>(2,596)</b>	<b>(4,928)</b>	<b>(5,500)</b>	<b>(6,000)</b>	<b>(6,000)</b>
Share issuance	16	98			
Dividend paid	316	390	387	470	581
Other	1,543	965	(152)	(354)	(618)
<b>Net cash from financing</b>	<b>1,875</b>	<b>1,453</b>	<b>235</b>	<b>115</b>	<b>(37)</b>
<b>Net change in cash</b>	<b>(552)</b>	<b>(333)</b>	<b>(1,559)</b>	<b>654</b>	<b>(947)</b>
Cash at beginning of year	4,619	3,994	3,810	2,251	2,904
Exchange difference	(73)	149			
<b>Cash at the end of year</b>	<b>3,994</b>	<b>3,810</b>	<b>2,251</b>	<b>2,904</b>	<b>1,957</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Current assets</b>	<b>17,372</b>	<b>23,078</b>	<b>28,164</b>	<b>33,613</b>	<b>41,501</b>
Cash & equivalents	4,008	3,820	2,261	2,914	1,967
Account receivables	7,206	11,216	15,589	18,899	25,342
Inventories	3,474	4,735	7,007	8,492	10,883
Prepayment	124	93	93	93	93
Other current assets	2,560	3,215	3,215	3,215	3,215
<b>Non-current assets</b>	<b>9,514</b>	<b>13,363</b>	<b>17,881</b>	<b>22,429</b>	<b>26,505</b>
PPE	6,369	9,457	13,975	18,523	22,599
Deferred income tax	73	91	91	91	91
Other non-current assets	3,072	3,815	3,815	3,815	3,815
<b>Total assets</b>	<b>26,886</b>	<b>36,441</b>	<b>46,046</b>	<b>56,043</b>	<b>68,007</b>
<b>Current liabilities</b>	<b>11,712</b>	<b>17,179</b>	<b>23,174</b>	<b>28,176</b>	<b>33,654</b>
Deferred income	22	31	31	31	31
Account payables	6,341	10,238	15,233	19,235	23,713
Tax payable	125	161	161	161	161
Other current liabilities	5,224	6,749	7,749	8,749	9,749
<b>Non-current liabilities</b>	<b>1,249</b>	<b>2,588</b>	<b>2,588</b>	<b>2,588</b>	<b>2,588</b>
Deferred income	161	212	212	212	212
Deferred tax liability	80	426	426	426	426
Other non-curr. liabilities	1008	1951	1951	1951	1951
<b>Total liabilities</b>	<b>12,961</b>	<b>19,767</b>	<b>25,762</b>	<b>30,764</b>	<b>36,242</b>
Share capital	3,173	4,115	4,115	4,115	4,115
Reserves	9,765	11,383	14,992	19,987	26,473
Minority interest	987	1,177	1,177	1,177	1,177
<b>Shareholders' equity</b>	<b>13,925</b>	<b>16,675</b>	<b>20,284</b>	<b>25,279</b>	<b>31,765</b>
<b>Total equity and liabilities</b>	<b>26,886</b>	<b>36,441</b>	<b>46,046</b>	<b>56,043</b>	<b>68,007</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>	<b>19</b>	<b>10</b>	<b>6</b>	<b>5</b>	<b>4</b>
Computer connectors	5	5	5	5	6
Automotive interconnect	7	6	6	6	7
Comm. interconnect	67	75	78	78	77
Consumer electronics	2	4	5	6	7
Other connectors					
<b>Growth (%)</b>	<b>65.9</b>	<b>57.1</b>	<b>44.9</b>	<b>32.1</b>	<b>25.2</b>
Revenue	54.3	65.3	43.7	32.7	25.9
Gross profit	57.5	60.5	43.7	36.4	29.1
Operating profit	46.2	61.0	40.1	38.5	30.3
Net profit					
<b>Profit &amp; loss ratio (%)</b>	<b>20.0</b>	<b>21.0</b>	<b>20.9</b>	<b>21.0</b>	<b>21.1</b>
Gross margin	9.0	9.2	9.1	9.4	9.7
Operating margin	7.4	7.6	7.3	7.7	8.0
Net profit margin					
<b>Balance sheet ratio</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Net debt/total equity (x)	1.5	1.3	1.2	1.2	1.2
Current ratio (x)	97	94	94	94	94
Receivable turnover days	56	53	53	53	53
Inventory turnover days	106	107	107	107	107
Payable turnover days					
<b>Profitability (%)</b>	<b>12.1</b>	<b>16.3</b>	<b>18.8</b>	<b>20.9</b>	<b>21.7</b>
ROE	6.3	7.5	8.3	9.4	10.1
ROA					
<b>Per share data (RMB)</b>	<b>0.53</b>	<b>0.66</b>	<b>0.93</b>	<b>1.28</b>	<b>1.67</b>
EPS	0.06	0.05	0.07	0.10	0.13
DPS	19	10	6	5	4

Source: Company data, CMBIS estimates

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