

Luxshare (002475 CH)

Resilient FY22/1H23 despite industry headwinds

Luxshare posted FY22 revenue/NP growth of 39%/30% YoY, largely in-line with expectations, and it also pre-announced 1H23 earnings growth of 10-20% YoY, which we believe is resilient given weakness in smartphone/ consumer electronics market. Given challenging macro headwinds, Luxshare delivered impressive operating efficiency and cost synergies. Looking forward, following multiple strategic M&As in 2020/21, we believe Luxshare is well-positioned to gain share in iPhone/Macbook/iPad/Watch OEM/components, and capture opportunities in automobile tier-1 biz and AR/VR product cycle. We adjusted FY23-25E EPS by -2%/+2% to reflect macro headwinds and accelerated auto segment. The stock now trades at 15.2x FY23E P/E, close to 1-sd below 5-yr average P/E. Maintain BUY with new TP of RMB48.0 based on lowered 28x FY23E P/E. Upcoming catalysts include Apple MR launch in June.

■ **FY22/1H23 earnings largely in-line; Impressive growth in smartphone components/OEM.** Despite global macro weakness, rising inflation and geopolitical uncertainties, Luxshare delivered a solid set of FY22 results with sales/NP growth of 39%/30% YoY. By segment, computer/automotive/communications/consumer electronics revenue grew 44%/48%/293%/33% YoY, while GPM was largely stable at 12.2% in FY22. In particular, its subsidiary, Luxcase Precision (casing & top module), reported revenue/net profit growth of 49%/102% and NPM improved 0.7ppt YoY to 2.6% in FY22.

■ **Multiple growth drivers: iPhone 15/MR, auto tier-1 biz and overseas expansion.** As the major OEM/component supplier of Apple's iPhone/Airpods/Watch, we believe Luxshare will benefit from Apple's iPhone 15 cycle in 3Q23 and continue share gain in top module/OEM in FY23E. In addition, we expect Luxshare will expand into OEM biz for Apple's first-gen MR device in 2H23E (500k in FY23E), and gradually ramp up OEM/component share allocation in FY24/25E. Benefiting from Apple's supply chain expansion strategy, Luxshare plans to accelerate capacity expansion for CE/auto components in Vietnam and Mexico. As auto tier-1 business and communications segment is set to deliver stable growth post-integration and overall profitability continues to improve in FY23/24E, we forecast earnings will grow 33%/24% YoY in FY23/24E.

■ **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 new opportunities in auto tier-1 and AR/VR will boost revenue upside in FY24/25E. The stock now trades at 15.2x FY23E P/E, close to 1-SD below 5-year hist. avg P/E. Reiterate BUY with new TP of RMB48.0 based on lowered 28x FY23E P/E for softer consumer electronics market. Catalysts include iPhone share gain, Apple MR launch and auto tier-1 business progress.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	153,946	214,028	263,053	307,081	343,043
YoY growth (%)	66.4	39.0	22.9	16.7	11.7
Net profit (RMB mn)	7,070.5	9,163.1	12,176.2	15,035.8	17,477.3
EPS (Reported) (RMB)	1.00	1.29	1.71	2.12	2.46
YoY growth (%)	(2.8)	28.6	32.9	23.5	16.2
Consensus EPS (RMB)	na	na	1.83	2.27	0.00
P/E (x)	41.4	26.7	15.2	12.3	10.6
P/B (x)	6.4	4.2	1.8	1.6	na
Yield (%)	0.0	0.4	0.7	0.8	1.0
ROE (%)	18.4	17.5	15.2	13.8	14.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB48.00**

(Previous TP **RMB52.3**)

Up/Downside **83.9%**

Current Price **RMB26.10**

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Stock Data

Mkt Cap (RMB mn)	185,310.0
Avg 3 mths t/o (RMB mn)	1,756.7
52w High/Low (RMB)	38.70/25.15
Total Issued Shares (mn)	7100.0

Source: FactSet

Shareholding Structure

Luxshare Ltd	38.3%
HKEX	7.4%

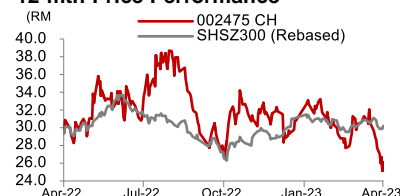
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.3%	-13.0%
3-mth	-16.1%	-12.9%
6-mth	-2.0%	-13.9%

Source: FactSet

12-mth 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	263,053	307,081	343,043	234,917	267,788	na	12%	15%	na
Gross Profit	33,354	39,502	44,664	30,532	35,468	na	9%	11%	na
Operating Profit	14,359	17,401	19,998	13,663	16,123	na	5%	8%	na
Net profit	12,176	15,036	17,477	12,348	14,711	na	-1%	2%	na
EPS (RMB)	1.71	2.12	2.46	1.74	2.08	na	-2%	2%	na
Gross Margin	12.7%	12.9%	13.0%	13.0%	13.2%	na	-0.3 ppt	-0.4 ppt	na
Operating Margin	5.5%	5.7%	5.8%	5.8%	6.0%	na	-0.4 ppt	-0.4 ppt	na
Net Margin	4.6%	4.9%	5.1%	5.3%	5.5%	na	-0.6 ppt	-0.6 ppt	na

Source: Bloomberg, CMBIGM

Figure 2: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	263,053	307,081	343,043	255,994	296,515	295,086	3%	4%	16%
Gross Profit	33,354	39,502	44,664	33,164	39,145	41,090	1%	1%	9%
Operating Profit	14,359	17,401	19,998	15,186	18,620	23,956	-5%	-7%	-17%
Net profit	12,176	15,036	17,477	12,957	16,144	19,858	-6%	-7%	-12%
EPS (RMB)	1.71	2.12	2.46	1.83	2.27	2.96	-6%	-7%	-17%
Gross Margin	12.7%	12.9%	13.0%	13.0%	13.2%	13.9%	-0.3 ppt	-0.3 ppt	-0.9 ppt
Operating Margin	5.5%	5.7%	5.8%	5.9%	6.3%	8.1%	-0.5 ppt	-0.6 ppt	-2.3 ppt
Net Margin	4.6%	4.9%	5.1%	5.1%	5.4%	6.7%	-0.4 ppt	-0.5 ppt	-1.6 ppt

Source: Bloomberg, CMBIGM

Figure 3: Revenue breakdown

RMB mn	FY21	FY22	FY23E	FY24E	FY25E
Computer Connectors	7,857	11,280	11,844	12,436	13,058
...YoY	123%	44%	5%	5%	5%
Automotive Interconnect	4,143	6,149	9,532	13,821	20,040
...YoY	46%	48%	55%	45%	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	217,740	246,914	261,815
...YoY	65%	33%	21%	13%	6%
Casing + Top module	49,727	74,187	96,305	110,794	111,503
Type-C (Non-Apple)	3,328	3,660	4,026	4,429	4,872
Dongle	-	-	-	-	-
Lightning, wireless, LCP	11,201	12,031	13,378	14,740	14,616
Acoustics/haptics	6,484	7,052	7,052	7,220	7,321
Apple Watch	11,839	16,065	20,580	21,438	21,438
AirPods	46,935	43,130	41,086	42,387	42,387
Others	5,125	23,542	35,313	45,907	59,679
Other Connectors	4,039	4,098	5,327	6,925	9,003
...YoY	97%	1%	30%	30%	30%
Total	153,946	214,028	263,053	307,081	343,043
...YoY	66%	39%	23%	17%	12%

Source: Company data, CMBIGM

Figure 4: P&L forecast

RMB mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	92,501	153,946	214,028	263,053	307,081	343,043
...YoY	48%	66%	39%	23%	17%	12%
Cost of sales	75,770	135,048	187,929	229,699	267,579	298,379
Gross profit	16,731	18,898	26,100	33,354	39,502	44,664
GPM (%)	18.1%	12.3%	12.2%	12.7%	12.9%	13.0%
...YoY	34%	13%	38%	28%	18%	13%
SG&A	-5,268	4,532	5,907	7,335	8,563	9,566
...% of rev	-5.7%	2.9%	2.8%	2.8%	2.8%	2.8%
R&D	5,745	6,642	8,447	10,382	12,120	13,539
...% of rev	6.2%	4.3%	3.9%	3.9%	3.9%	3.9%
Operating profit	8,168	8,167	11,154	14,359	17,401	19,998
OPM (%)	8.8%	5.3%	5.2%	5.5%	5.7%	5.8%
...YoY	42%	0%	37%	29%	21%	15%
Net profit	7,225	7,071	9,163	12,176	15,036	17,477
NPM (%)	7.8%	4.6%	4.3%	4.6%	4.9%	5.1%
...YoY	53%	-2%	30%	33%	23%	16%

Source: Company data, CMBIGM

Valuation

Reiterate BUY with new TP of RMB 48.0 (84% upside)

We derived our new 12m TP of RMB 48.0 based on lowered 28x FY23E P/E (vs 30x prior for soft consume 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 next 3-5 years.

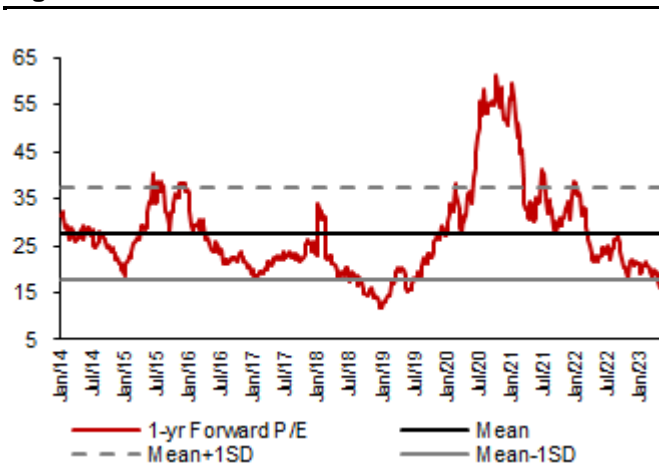
Upcoming catalysts include share gain in Apple products, MR device launch and auto tier-1 progress. Major risks include weaker iPhone/AirPods demand, weaker yield improvement and slower integration of acquired businesses.

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
A-listed components												
Luxshare	002475 CH	BUY	26,925	26.10	48.0	84%	15.2	12.3	1.8	1.6	15.2	13.8
Goertek	002241 CH	BUY	8,779	17.74	44.7	152%	9.0	11.7	1.6	1.6	17.8	13.4
O-film	002456 CH	NR	2,248	4.77	NA	NA	-	79.5	3.6	3.2	(13.2)	0.8
Sunway	300136 CH	NR	2,685	19.18	NA	NA	17.9	14.1	2.4	2.0	14.0	14.8
BOE	000725 CH	NR	22,101	4.02	NA	NA	17.7	10.6	1.1	1.0	6.2	9.1
Hans Laser	002008 CH	NR	3,976	26.12	NA	NA	17.4	13.6	1.8	1.6	10.5	12.1
Lens Tech	300433 CH	NR	8,390	11.66	NA	NA	16.6	12.7	1.2	1.2	7.6	9.3
Everwin	300115 CH	NR	1,984	11.42	NA	NA	22.1	12.8	2.2	1.9	10.1	15.1
Holitech	002217 CH	NR	1,402	3.11	NA	NA	-	-	-	-	-	-
Average							16.6	20.9	2.0	1.8	8.1	11.0
H-listed components												
FIT Hon Teng	6088 HK	BUY	1,439	1.55	2.3	48%	9.6	7.4	0.5	0.5	5.6	7.1
AAC Tech	2018 HK	HOLD	2,519	16.50	15.6	-6%	15.1	13.6	0.8	0.8	5.2	5.7
Sunny Optical	2382 HK	HOLD	11,506	82.35	86.8	5%	25.1	21.7	3.4	3.1	13.4	14.1
Tongda	698 HK	BUY	136	0.11	0.2	82%	3.1	2.8	0.1	0.1	2.9	4.7
BYDE	285 HK	HOLD	6,788	23.65	20.3	-14%	16.4	13.3	1.7	1.5	10.2	11.4
Q tech	1478 HK	BUY	575	3.81	5.2	36%	7.9	5.9	0.8	0.7	9.8	12.0
TK Group	2283 HK	BUY	179	1.69	3.4	100%	3.3	4.2	0.7	0.7	20.7	17.5
Truly	732 HK	NR	399	0.99	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	34,562	22.55	NA	NA	31.9	24.6	1.2	1.1	3.6	4.4
YOFC	6869 HK	NR	2,856	15.32	NA	NA	7.3	6.9	0.9	0.9	10.9	11.1
Cowell	1415 HK	NR	1,626	15.12	NA	NA	16.1	11.2	3.6	2.7	23.6	26.7
Average							13.6	11.2	1.4	1.2	10.6	11.5

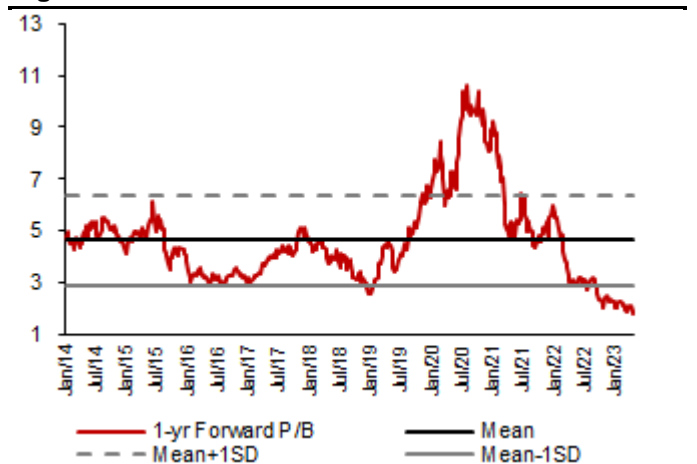
Source: Bloomberg, CMBIGM, * TP under review

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
YE 31 Dec (RMB mn)						
Revenue	92,501	153,946	214,028	263,053	307,081	343,043
Cost of goods sold	(75,770)	(135,048)	(187,929)	(229,699)	(267,579)	(298,379)
Gross profit	16,731	18,898	26,100	33,354	39,502	44,664
Selling expense	(477)	(790)	(831)	(1,022)	(1,193)	(1,333)
Admin expense	0	0	0	0	0	0
SG&A expense	5,745	(3,742)	(5,076)	(6,313)	(7,370)	(8,233)
R&D expense	(5,745)	(6,642)	(8,447)	(10,382)	(12,120)	(13,539)
Others	(9,512)	(1,101)	(3,100)	(2,928)	(3,069)	(3,212)
Other income	451	854	602	803	803	803
Gain/loss on financial assets at FVTPL	329	(116)	14	0	0	0
Investment gain/loss	648	689	998	0	0	0
Other gains/(losses)	(2)	118	895	847	847	847
EBIT	8,168	8,167	11,154	14,359	17,401	19,998
Net Interest income/(expense)	(905)	(555)	(883)	(971)	(1,068)	(1,175)
Other income/expense	(32)	(25)	4	4	4	4
Pre-tax profit	8,136	8,143	11,158	14,363	17,404	20,001
Income tax	(645)	(322)	(667)	(859)	(1,041)	(1,196)
After tax profit	7,491	7,821	10,491	13,504	16,363	18,805
Minority interest	266	750	1,328	1,328	1,328	1,328
Net profit	7,225	7,071	9,163	12,176	15,036	17,477
Gross dividends	774	771	927	1,232	1,521	1,768
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	43,396	72,309	88,292	107,011	115,895	115,895
Cash & equivalents	10,528	14,205	19,367	30,269	42,723	42,723
Account receivables	14,100	31,931	26,993	47,327	39,114	57,228
Inventories	13,211	20,901	37,363	33,851	49,107	43,400
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	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
Total assets	70,013	120,572	148,384	158,854	169,203	169,203
Current liabilities	33,593	64,831	74,631	93,337	95,972	111,063
Short-term borrowings	7,577	11,920	14,912	15,912	16,912	17,912
Account payables	23,180	45,651	50,302	68,008	69,642	83,734
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	108,307	110,941	126,033
Share capital	7,000	7,050	7,100	7,100	7,100	7,100
Retained earnings	17,996	24,041	32,288	43,538	57,342	73,298
Other reserves	3,106	4,196	5,952	5,952	5,952	5,952
Total shareholders equity	30,907	45,783	58,784	101,933	115,737	131,693
Minority interest	2,805	10,494	45,343	45,343	45,343	45,343
Total equity and liabilities	70,013	120,572	148,384	210,239	226,678	257,726

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,136	8,143	11,158	14,363	17,404	20,001
Depreciation & amortization	2,417	5,188	7,800	5,328	5,535	5,535
Tax paid	(645)	(322)	(667)	(859)	(1,041)	(1,196)
Change in working capital	(2,637)	(6,166)	(6,612)	884	(5,409)	1,685
Others	(1,043)	120	381	131	101	101
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	2,559	2,849
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)	(5,480)	(6,187)	(6,872)
Net cash from financing	6,786	(390)	8,156	(2,226)	(2,627)	(3,024)
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%	22.9%	16.7%	11.7%
Gross profit	34.4%	12.9%	38.1%	27.8%	18.4%	13.1%
EBIT	42.2%	(0.0%)	36.6%	28.7%	21.2%	14.9%
Net profit	53.3%	(2.1%)	29.6%	32.9%	23.5%	16.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	18.1%	12.3%	12.2%	12.7%	12.9%	13.0%
Return on equity (ROE)	27.4%	18.4%	17.5%	15.2%	13.8%	14.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.3	1.1	1.2	1.1	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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	44.0	41.4	26.7	15.2	12.3	10.6
P/B	10.3	6.4	4.2	1.8	1.6	na
Div yield (%)	0.2	0.0	0.4	0.7	0.8	1.0

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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