

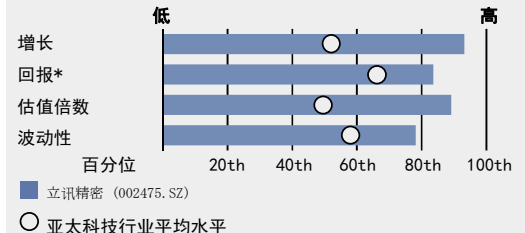


凭借丰富产品组合持续取得成功；首次覆盖并加入强力买入名单(摘要)

建议理由

我们首次覆盖立讯精密并将之加入强力买入名单，因为我们认为公司凭借其业务实力有望在短期和中长期实现强劲的盈利增长。该股是我们覆盖范围内 A 股科技股“挑战者”类别中的首选股。我们看好该股，因为：(1) 其良好的客户基础和出色的过往表现应会令公司在 550 亿美元全球连接器市场上由较低基数实现增长；(2) 公司于 2014 年下半年开始成为苹果全线产品输入/输出连接器的主力供应商；(3) 公司致力于参与全球领先消费电子客户的主要可穿戴产品的供应链，并计划渗透至高利润率汽车电子业务。

投资摘要



* 回报 - 资本回报率 投资摘要指标的全面描述请参见本报告的信息披露部分。

推动因素

鉴于立讯精密的产品种类丰富，我们预计公司在 2015 年面临多项推动因素：(1) 盈利表现格外强劲。我们估算 2014 全年/15 年一季度/15 年全年盈利同比增速分别为 93%/98%/65%；(2) 我们预计“将于 2015 年初面市”的苹果手表将成为 2015 年盈利的重要推动力；(3) Type-C 制式的快速充电线将逐渐配置在国内主要智能手机品牌旗舰产品上，全球主要笔记本品牌也有望采用 Type-C 接口；(4) 公司正在向通讯和汽车行业的新客户和产品渗透，这或将令市场对于立讯精密在这些新领域的潜力更具信心。

估值

我们采用研究范围内 A 股硬件科技股中“挑战者”类别的 2015 年预期市净率和 2015-17 年预期净资产回报率均值，在此基础上应用 15% 的溢价以体现立讯精密的高增长和高回报，由此得出该股 12 个月目标价格人民币 42.0 元。目标价格隐含 32 倍的 2015 年预期市盈率和 32% 的上行空间。我们首次覆盖该股并将之加入强力买入名单。

主要风险

主要客户的关键产品延迟推出；PC 市场面临销量和销售均价压力；新产品的营业费用高于预期，在通讯和汽车等新市场上的进展慢于预期。

*全文翻译随后提供

所属投资名单

亚太买入名单
亚太强力买入名单

行业评级：中性

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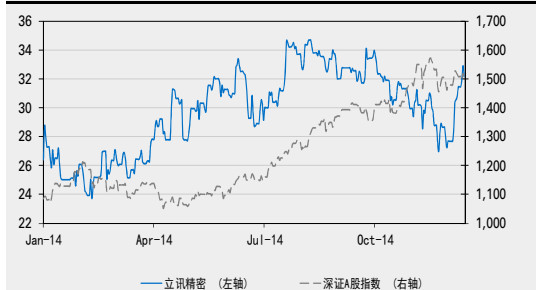
北京高华证券有限责任公司及其关联机构与其研究报告所分析的企业存在业务关系，并且继续寻求发展这些关系。因此，投资者应当考虑到本公司可能存在可能影响本报告客观性的利益冲突，不应视本报告为作出投资决策的唯一因素。有关分析师的申明和其他重要信息，见信息披露附录，或请与您的投资代表联系。

主要数据

| | 当前 |
|-----------------------|--------------------|
| 股价 (Rmb) | 32.15 |
| 12个月目标价格 (Rmb) | 42.00 |
| 市值 (Rmb mn / US\$ mn) | 26,746.6 / 4,315.2 |
| 外资持股比例 (%) | -- |

| | 12/13 | 12/14E | 12/15E | 12/16E |
|---------------|-------|--------|--------|--------|
| 每股盈利 (Rmb) | 0.44 | 0.83 | 1.30 | 1.83 |
| 每股盈利增长 (%) | 29.1 | 86.9 | 56.5 | 40.9 |
| 每股摊薄盈利 (Rmb) | 0.44 | 0.83 | 1.30 | 1.83 |
| 每股基本盈利 (Rmb) | 0.44 | 0.83 | 1.30 | 1.83 |
| 市盈率 (X) | 38.9 | 38.8 | 24.8 | 17.6 |
| 市净率 (X) | 5.7 | 5.5 | 4.6 | 3.7 |
| EV/EBITDA (X) | 23.6 | 22.6 | 16.2 | 12.4 |
| 股息收益率 (%) | 0.3 | 0.3 | 0.5 | 0.6 |
| 净资产回报率 (%) | 15.6 | 18.2 | 20.1 | 23.3 |
| ROIC (%) | 21.3 | 23.0 | 25.0 | 25.8 |

股价走势图



股价表现 (%)

| | 3个月 | 6个月 | 12个月 |
|-----------|-------|--------|--------|
| 绝对 | 0.4 | 4.2 | 21.8 |
| 相对于深证A股指数 | (6.5) | (19.2) | (12.5) |

资料来源：公司数据、高盛研究预测、FactSet (股价为1/14/2015收盘价)

立讯精密：财务数据概要

| 损益表(Rmb mn) | 12/13 | 12/14E | 12/15E | 12/16E | 资产负债表(Rmb mn) | 12/13 | 12/14E | 12/15E | 12/16E |
|----------------------|-----------|-----------|-----------|------------|---------------|---------|----------|----------|----------|
| 主营业务收入 | 4,591.7 | 7,557.2 | 11,279.6 | 14,769.2 | 现金及等价物 | 737.3 | 2,623.1 | 2,187.5 | 1,886.4 |
| 主营业务成本 | (3,647.0) | (5,805.7) | (8,602.1) | (11,258.0) | 应收账款 | 1,812.0 | 2,775.2 | 3,833.2 | 5,019.0 |
| 销售、一般及管理费用 | (449.7) | (813.3) | (1,234.3) | (1,601.0) | 存货 | 678.2 | 1,079.7 | 1,599.7 | 2,093.6 |
| 研发费用 | -- | -- | -- | -- | 其它流动资产 | 183.1 | 183.1 | 183.1 | 183.1 |
| 其它营业收入/(支出) | 0.0 | 0.0 | 0.0 | 0.0 | 流动资产 | 3,410.7 | 6,661.1 | 7,803.5 | 9,182.2 |
| 员工股票期权费用 | -- | -- | -- | -- | 固定资产净额 | 1,755.6 | 2,375.5 | 2,949.4 | 3,574.3 |
| EBITDA | 621.3 | 1,130.7 | 1,677.3 | 2,189.6 | 无形资产净额 | 949.4 | 930.5 | 912.0 | 893.9 |
| 折旧和摊销 | (126.4) | (192.5) | (234.1) | (279.4) | 长期投资 | 33.4 | 33.4 | 33.4 | 33.4 |
| EBIT | 494.9 | 938.2 | 1,443.2 | 1,910.2 | 其它长期资产 | 15.9 | 15.9 | 15.9 | 15.9 |
| 利息收入 | 0.0 | 0.0 | 0.0 | 0.0 | 资产合计 | 6,165.0 | 10,016.4 | 11,714.2 | 13,699.7 |
| 财务费用 | (62.5) | (69.9) | (110.8) | (88.6) | 应付账款 | 1,467.6 | 2,177.2 | 2,990.2 | 3,913.4 |
| 联营公司 | 0.0 | 0.0 | 0.0 | 0.0 | 短期贷款 | 1,106.2 | 1,506.2 | 1,306.2 | 906.2 |
| 其它 | 110.8 | 42.2 | 30.9 | 41.8 | 其它流动负债 | 153.8 | 189.4 | 237.2 | 286.9 |
| 税前利润 | 543.2 | 910.5 | 1,363.3 | 1,863.4 | 流动负债 | 2,727.7 | 3,872.9 | 4,533.6 | 5,106.6 |
| 所得税 | (81.1) | (130.3) | (204.5) | (279.5) | 长期贷款 | 271.2 | 271.2 | 271.2 | 271.2 |
| 少数股东损益 | (122.4) | (124.7) | (80.0) | (64.0) | 其它长期负债 | 29.0 | 29.0 | 29.0 | 29.0 |
| 优先股股息前净利润 | 339.8 | 655.4 | 1,078.8 | 1,519.9 | 长期负债 | 300.1 | 300.1 | 300.1 | 300.1 |
| 优先股息 | 0.0 | 0.0 | 0.0 | 0.0 | 负债合计 | 3,027.8 | 4,173.0 | 4,833.8 | 5,406.7 |
| 非经常性项目前净利润 | 339.8 | 655.4 | 1,078.8 | 1,519.9 | 优先股 | 0.0 | 0.0 | 0.0 | 0.0 |
| 税后非经常性损益 | 0.0 | 0.0 | 0.0 | 0.0 | 普通股权益 | 2,317.5 | 4,899.0 | 5,856.2 | 7,204.6 |
| 净利润 | 339.8 | 655.4 | 1,078.8 | 1,519.9 | 少数股东权益 | 819.6 | 944.3 | 1,024.3 | 1,088.3 |
| 每股基本盈利(非经常性项目前)(Rmb) | 0.44 | 0.83 | 1.30 | 1.83 | 负债及股东权益合计 | 6,165.0 | 10,016.4 | 11,714.2 | 13,699.7 |
| 每股基本盈利(非经常性项目后)(Rmb) | 0.44 | 0.83 | 1.30 | 1.83 | 每股净资产(Rmb) | 3.02 | 5.89 | 7.04 | 8.66 |
| 每股摊薄盈利(非经常性项目后)(Rmb) | 0.44 | 0.83 | 1.30 | 1.83 | | | | | |
| 不含员工股票期权费用的每股盈利(基本) | -- | -- | -- | -- | 比率 | 12/13 | 12/14E | 12/15E | 12/16E |
| 不含员工股票期权费用的每股盈利(摊薄) | -- | -- | -- | -- | CROCI (%) | 21.3 | 23.0 | 25.0 | 25.8 |
| 每股股息(Rmb) | 0.05 | 0.09 | 0.15 | 0.21 | 净资产回报率(%) | 15.6 | 18.2 | 20.1 | 23.3 |
| 股息支付率(%) | 11.3 | 10.7 | 11.3 | 11.3 | 总资产回报率(%) | 6.6 | 8.1 | 9.9 | 12.0 |
| 自由现金流收益率(%) | (2.7) | (1.8) | (0.6) | 0.8 | 平均运用资本回报率(%) | 16.3 | 19.1 | 22.2 | 24.0 |
| | | | | | 存货周转天数 | 54.7 | 55.3 | 56.8 | 59.9 |
| 增长率和利润率(%) | 12/13 | 12/14E | 12/15E | 12/16E | 应收账款周转天数 | 121.0 | 110.8 | 106.9 | 109.4 |
| 主营业务收入增长率 | 45.9 | 64.6 | 49.3 | 30.9 | 应付账款周转天数 | 121.0 | 114.6 | 109.6 | 111.9 |
| EBITDA增长率 | 32.7 | 82.0 | 48.3 | 30.5 | 净负债/股东权益(%) | 20.4 | (14.5) | (8.9) | (8.5) |
| EBIT增长率 | 26.0 | 89.6 | 53.8 | 32.4 | EBIT利息保障倍数(X) | 7.9 | 13.4 | 13.0 | 21.5 |
| 净利润增长率 | 29.1 | 92.9 | 64.6 | 40.9 | | | | | |
| 每股盈利增长 | 29.1 | 86.9 | 56.5 | 40.9 | 估值 | 12/13 | 12/14E | 12/15E | 12/16E |
| 毛利率 | 20.6 | 23.2 | 23.7 | 23.8 | 基本市盈率(X) | 38.9 | 38.8 | 24.8 | 17.6 |
| EBITDA利润率 | 13.5 | 15.0 | 14.9 | 14.8 | 市净率(X) | 5.7 | 5.5 | 4.6 | 3.7 |
| EBIT利润率 | 10.8 | 12.4 | 12.8 | 12.9 | EV/EBITDA(X) | 23.6 | 22.6 | 16.2 | 12.4 |
| | | | | | 企业价值/总投资现金(X) | 3.9 | 4.9 | 4.0 | 3.3 |
| 现金流量表(Rmb mn) | 12/13 | 12/14E | 12/15E | 12/16E | 股息收益率(%) | 0.3 | 0.3 | 0.5 | 0.6 |
| 优先股股息前净利润 | 339.8 | 655.4 | 1,078.8 | 1,519.9 | | | | | |
| 折旧及摊销 | 126.4 | 192.5 | 234.1 | 279.4 | | | | | |
| 少数股东权益 | 122.4 | 124.7 | 80.0 | 64.0 | | | | | |
| 运营资本增减 | (327.5) | (655.1) | (765.0) | (756.6) | | | | | |
| 其它 | 33.3 | 0.0 | 0.0 | 0.0 | | | | | |
| 经营活动产生的现金流 | 294.3 | 317.6 | 627.9 | 1,106.7 | | | | | |
| 资本开支 | (674.4) | (793.5) | (789.6) | (886.2) | | | | | |
| 收购 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | |
| 剥离 | 8.2 | 0.0 | 0.0 | 0.0 | | | | | |
| 其它 | (98.1) | 0.0 | 0.0 | 0.0 | | | | | |
| 投资活动产生的现金流 | (764.3) | (793.5) | (789.6) | (886.2) | | | | | |
| 支付股息的现金(普通股和优先股) | (36.9) | (38.3) | (73.9) | (121.7) | | | | | |
| 借款增减 | 782.8 | 400.0 | (200.0) | (400.0) | | | | | |
| 普通股发行(回购) | 19.2 | 2,000.0 | 0.0 | 0.0 | | | | | |
| 其它 | (30.6) | 0.0 | 0.0 | 0.0 | | | | | |
| 筹资活动产生的现金流 | 734.5 | 2,361.7 | (273.9) | (521.7) | | | | | |
| 总现金流 | 264.4 | 1,885.7 | (435.6) | (301.1) | | | | | |

注：最后一个实际年度数据可能包括已公布和预测数据。

资料来源：公司数据、高盛研究预测

对此报告有贡献的人员

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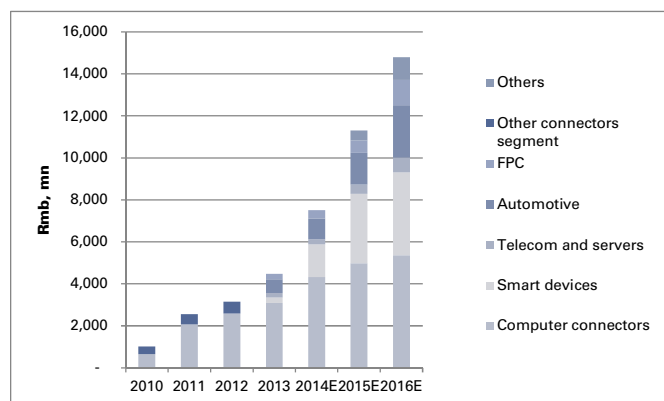
Prices in this report are as of January 12, 2015, unless stated otherwise.

The authors would like to thank Jason Xu for his contribution to this report.

Making the connection: Who is Luxshare?

Luxshare Precision Industry manufactures electronic connector products such as smart-phone connection cables, device chargers and USB ports. Its products are widely used in a wide range of products: computers, smart phones, tablets, wearable smart devices, game consoles, telecom equipment and automobiles. Due to this broad base, Luxshare has a well-diversified client portfolio, with major clients including Apple, Lenovo, Huawei, China smartphone makers, Sony, Nintendo, and some global auto component suppliers. Historically, Luxshare has been able to leverage its financial strength and capital operation to grow its business lines through mergers and acquisitions. It has made various acquisitions over the past four years to break into new markets and major product supply chains.

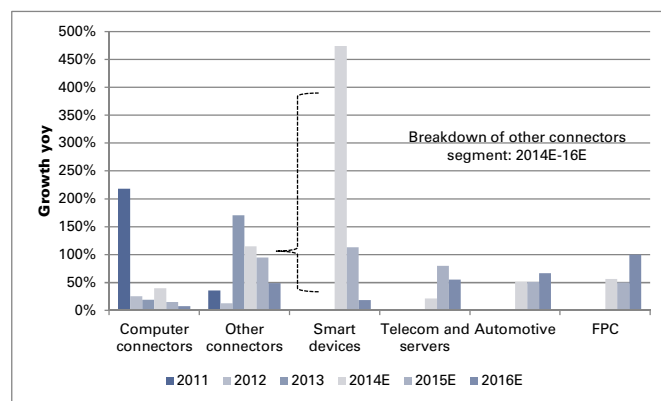
Exhibit 1: Luxshare’s product portfolio is well diversified
Luxshare’s revenue mix by product



Note: Other connector segment breaks down into FPC, auto, telecom & servers, smart devices and others since 2013

Source: Company data, Gao Hua Securities Research

Exhibit 2: Smart device segment to grow most near-term driven by supplying cable products to smartphones
Luxshare’s revenue growth by major product



Source: Company data, Gao Hua Securities Research

Summary: Gaining a lead with move to smart wearables: CL-Buy

We initiate coverage on Luxshare with a Buy (Conviction List) and 12-month target price of Rmb42.0. Luxshare has built a broad product offering via organic growth and acquisition, providing a strong combination of near, medium and long-term growth drivers. We think Luxshare is the best positioned among our covered Chinese “contender” tech companies to profit from the transition cycle from smartphone to the Internet of Things (IoT).

Ample space in global connector market for decade

Luxshare has not only built up a strong position in the 3C sector, but is preparing itself for the penetrating the communication and auto markets. With its strong client base, broad product offering, and robust track record, we believe Luxshare has ample room to grow its presence in the US\$55bn global connector market from a very low base (1.5% global share in 2013). Also, its R&D investment has paid off and has now become a core Input/Output (I/O) connector vendor to Apple’s full product lines (from 2H14). Luxshare is also well engaged in the supply chain of key wearable products at global leading Consumer Electronics clients and is probing into the auto electronic business, two key growth areas of the future.

Solid earnings driver matrix well positioned for cycles

We see Luxshare’s core PC connector business being driven by category expansion and product upgrade, outperforming the overall PC industry. We also identify several new drivers for mid-term earnings here: (1) A strong cycle for Apple business with a refreshed product pipeline (power cables, lightning chargers, wireless charger); (2) Wearable components ramping up in 2015, including charger, small structure parts, and potentially FPC and antenna; (3) global USB port and cable market in an upgrade cycle from 2015, with a new generation of leads to potentially major new market for Luxshare.

Strong growth, ROE, and CROCI

We estimate Luxshare’s revenues to grow at 34% CAGR over 2014E-17E revenue driven by smart device connectors. We forecast its net income CAGR to be higher at 44% with increasing margins and lower capex and improving efficiency. We expect Luxshare to reach first quartile ROE and first/second quartile CROCI among our “Contender” group of A-share tech stocks from 2015. Our 12-month Rmb42.0 target price is based on this Contender group average P/B-ROE and suggests 32% upside potential.

Key risks to our investment thesis

- Delay of key products at major clients: Any delay in the launch of clients’ key products could be a risks to our near term earnings estimates.
- PC market volume & ASP pressures: Luxshare still has over 50% revenue exposure to legacy PC market (as of 2014E). Any higher-than-expected volume & ASP pressure in the PC market could still affect Luxshare’s earnings
- New business investment risk: Higher-than-expected opex for new businesses could erode margins.

Just one report among our sector refresh: three other reports published today

- Negotiating transition to the Internet of Things era; CL-Buy Luxshare
- New valuation framework offers better alpha; three rating changes
- Ningbo Joyson Electronic: Growth priced in at China’s auto parts trailblazer; initiate at Neutral

Set to double its share in the US\$55 bn global connector market

Chinese connector makers are still new comers in the global US\$55bn market (2015E), with Luxshare, China's No.1 player, taking only 1.5% share in 2013. Nevertheless, we see Luxshare as a leader in the Chinese Consumer Electronics supply chain — with a solid vision and strategy for its long-term development and a proven track record. These attributes make it among our top picks across cycles for stocks under coverage. We initiate with CL-Buy.

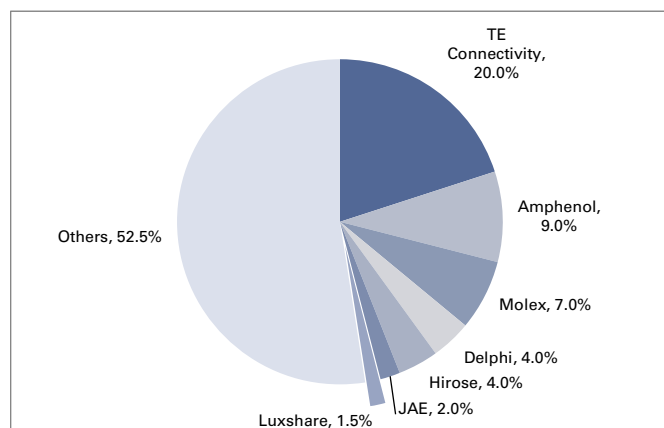
Strong client base and aggressive expansion drives growth

The global connector market is large and the products varied, with numerous types of products for all different kinds of applications across a number of industries. The market is led by global names like TE Connectivity, Amphenol, and Molex, with their market shares ranging from 20% to 7% in 2013.

Since its foundation, Luxshare has been growing fast, raising its market share and making it the leading Chinese competitor, with 1.5% market share (2013). The company intends to continue to grow in a global context, with further business from major clients such as Apple and Lenovo allowing it to gain market share. We estimate its market share will reach 4% by 2016E as its growth outperforms overall market growth.

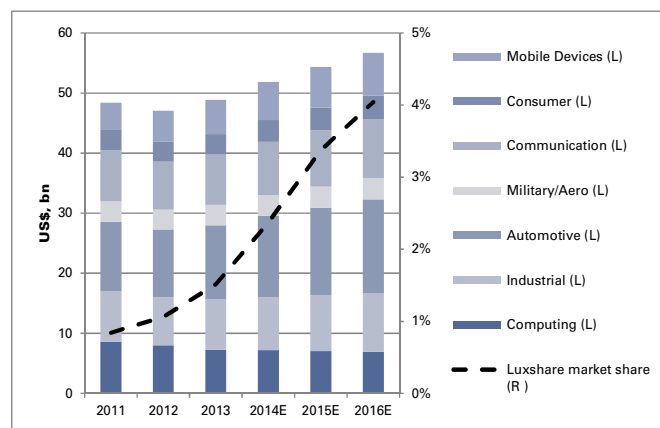
Luxshare's major successes have been in 3C — including **computing, mobile devices, and consumer electronics** (which together made up 34% of the total connector market in 2013). However, in tandem with its success in the PC market and greater penetration into the mobile device and consumer electronics markets, Luxshare has been preparing itself for the long term. It has acquired companies to position for two new markets: **communication** (Shenzhen Science Expert Industrial, as Keertong, in November 2011) and **auto electronics** (Fujian JK Wiring System, as Yuanguang, in May 2012, and SuK Kunststofftechnik GmbH, as SuK, in Oct 2013). These two new markets accounted for 42% of the global connector market in 2013. Luxshare has yet to penetrate military/aeronautical markets (23% of the market).

Exhibit 3: Luxshare had 1.5% market share in 2013...
Global connector maker market share in 2013



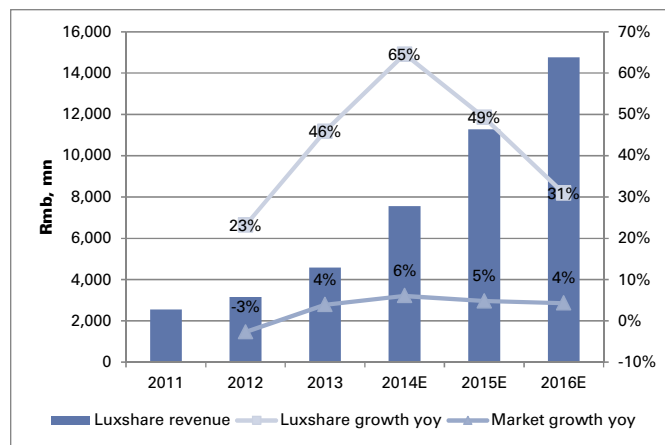
Source: Bishop & Associates, Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 4: ...but we expect it to grow to 4% by 2016
Global connector TAM and Luxshare share



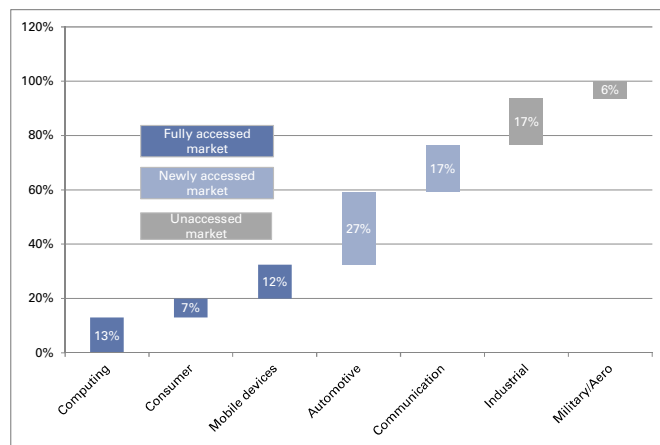
Source: Bishop & Associates, Company data, Gao Hua Securities Research.

Exhibit 5: Luxshare has been taking global market share
Luxshare revenue and growth vs. market growth



Source: Bishop & Associates, Gao Hua Securities Research.

Exhibit 6: Luxshare has fully accessed 32% of the market, and newly entered another 44%
Global connector market breakdown by TAM in 2015



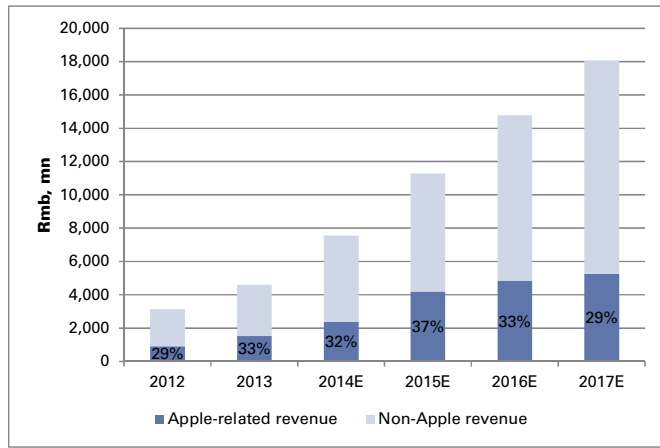
Source: Bishop & Associates, Gao Hua Securities Research.

Luxshare penetrates the Apple supply chain – a major growth driver

Ever since Luxshare completed its IPO in 2010, it has been a focus for it to penetrate Apple, and by 2H14, it had won contracts in the iPad, Macbook, iPhone, and Apple Watch supply chain. Now, with a solid track record in Apple’s mainstream products, we believe Luxshare is becoming a major supplier of I/O (Input/Output) connectors for Apple’s full range products and accessories:

- It firstly entered the iPad supply chain through the acquisition of Kunshan LANTO in 2011. This business contributed 29%/33% of total revenue in 2012/13.
- Leveraging LANTO’s supplier qualification, Luxshare worked with Apple on various projects and invested R&D for more than two years. It finally became a Macbook power cable and iPhone Lightning cable (the charger cable used for iPhone/iPad since iPhone 5 launch in 2012) supplier from 2H13.
- From 2H14, Luxshare ramped up its share in Lightning cable to 25%-30%, and also became the sole wireless charging cable supplier for Apple Watch. We believe this demonstrates Luxshare’s capability and potential to become a full range supplier.
- In 2015, we expect Luxshare will not only increase its share in Lightning and ramp up shipment for the Watch, but also expand into other Apple products such as earphones or other accessories such as special version cables.

Exhibit 7: Apple will be a major revenue contributor
Luxshare's Apple-related revenue forecast



Source: Company data, Gao Hua Securities Research.

Exhibit 8: Luxshare continues to win projects at Apple
Luxshare product portfolio at Apple

| Period | Business with Apple |
|----------|---|
| Pre-2012 | MacBook internal cable |
| 2012 | Added iPad internal cable |
| 2013 | Added MacBook power cable and Lightning cable |
| 2014E | To add Apple Watch charger |
| 2015E | To enter other Apple external cables |

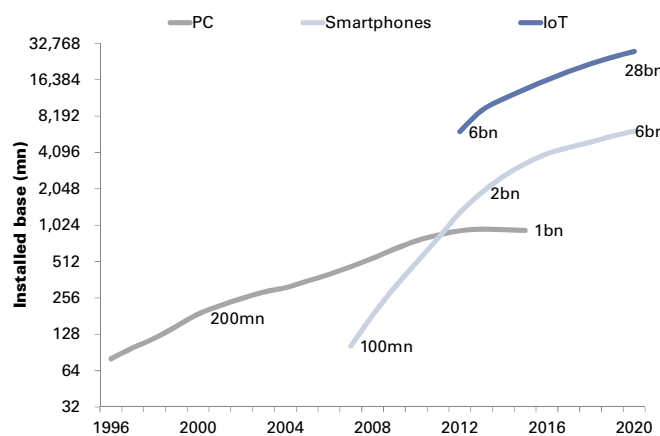
Source: Company data, Gao Hua Securities Research.

Leading exposure within our coverage to the next mega trend

Our global technology team believes the Internet of Things (IoT) concept will connect 28bn objects to the Internet, a considerably larger opportunity than either the PC or smartphone market (of which there are around 0.9bn and 2.6bn in existence). Within the IoT theme, we expect wearable devices and automotive segments will be the first to ramp up (see Making S-E-N-S-E of the next mega-trend, June 25, 2014).

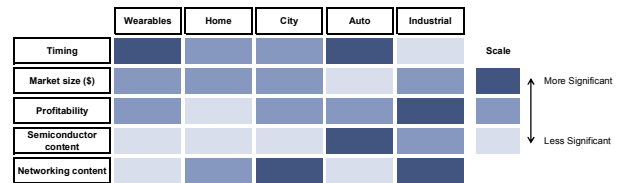
Having consistently invested in new technology and applications, we think Luxshare is well positioned to benefit from this trend. In wearable device segment, we estimate that accessories (like charger cables) will be of higher value among wearable devices and against smartphones, while **small casings** will be another beneficiary (which it produces at its subsidiary Toshima Suzhou). We believe Luxshare can enjoy both volume and value tailwinds from these products.

Exhibit 9: IoT emerging as the next mega-trend: connect 28bn "things" in 2020 (log-scale)
Internet subscribers over time



Source: IDC, Ericsson, Goldman Sachs Global Investment Research.

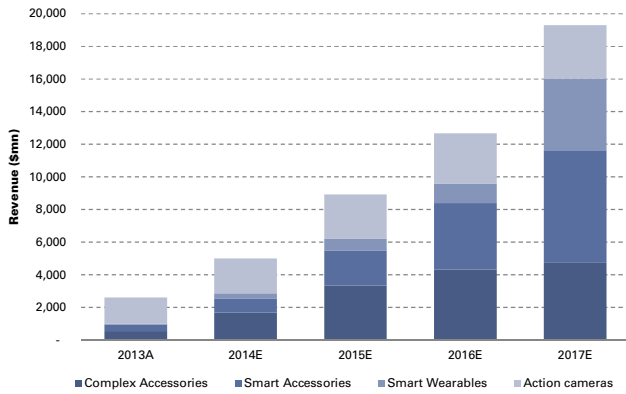
Exhibit 10: Wearables and auto to ramp up first
The IoT heat map: where to focus



Source: Goldman Sachs Global Investment Research.

Exhibit 11: Wearable market to reach about US\$20bn by 2017, at over 60% CAGR

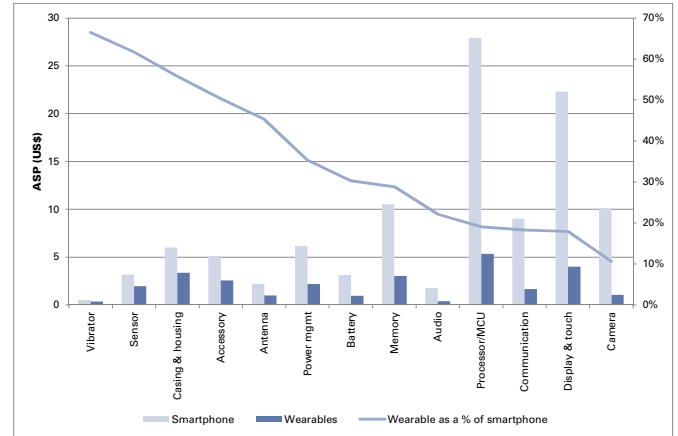
Wearable device market outlook



Source: IDC, Goldman Sachs Global Investment Research.

Exhibit 12: Accessories, antenna, small casing are among the top beneficiaries in wearable

Wearable device BOM analysis vs. smartphones



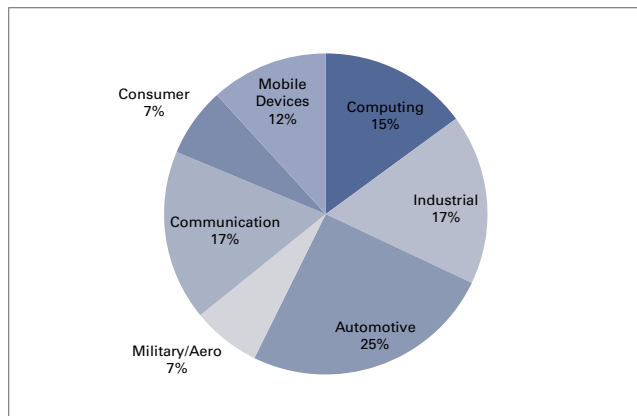
Source: Gao Hua Securities Research

Even though **automotive** has been the largest segment among the different connector TAMs, we expect it to outpace other segments. We believe the IoT trend should also support the segment, as automobiles are likely to go through upgrade cycle. We expect more electronic components be installed, especially in the infotainment system. This is another big opportunity ahead for Luxshare.

Luxshare's subsidiary Fujian JK Wiring System specializes in manufacture of auto wiring harnesses, leveraging its previous shareholder Denso's technology expertise in this area and orders. Another subsidiary, SuK in Germany, is an experienced plastic parts (including locks) maker to German automakers. Given that Luxshare's is still in the process of building process up its auto electronic business and still lacks electronics parts exposure to the high-growth/high-value Advanced Driver Assistance System (ADAS) and Infotainment areas; and in light of the long certification process in the auto industry, we do not expect auto business to become a major earnings drivers over the next 2-3 years (although it will account for 17% in 2016E, it will be a smaller share of gross profit due to low margin of the manufacturing business). However, we note its early preparation for the long term potential of these markets and will monitor the process closely.

Exhibit 13: Automotive connector accounted for 25% of total connector market in 2013...

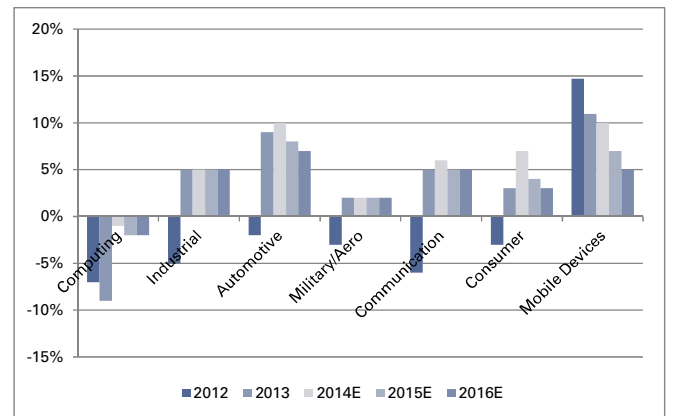
Global connector market breakdown by value in 2013



Source: Bishops & Associates.

Exhibit 14: ... and outpaces other segments with yoy growth of 7%-10% since 2014

Global connector segment value growth yoy



Source: Bishops & Associates, Gao Hua Securities Research

Within our coverage, we see Luxshare as having the most favorable industry positioning for the IoT opportunity: it is the only company with exposure to both wearables and the automotive segment, with a solid manufacturing platform and good track record of success.

Exhibit 15: We believe Luxshare is well prepared for wearable in the mid-term and also a good candidate for auto electronics in the long run

The IoT matrix for our China Tech coverage

| | Wearables | Automotive | Connected Home | Connected Cities | Industrial Internet | Description |
|------------|-----------|------------|----------------|------------------|---------------------|---|
| iFlyTek | | W | W | | | Language software used in cars and TVs |
| Ultrapower | | W | | | W | Smart wire project used in hospitals and mining sites; SmartCare info/connection terminal |
| Comba | | | | M | | Indoor coverage enhancement products to be 15% sales in 2014E |
| Crystal | W | | | | | Google glass 2 optical coating supplier |
| GoerTek | W | | W | | | ODM for some wearable and smarthome products; sensor business to ramp up in 2 years |
| Hikvision | | | W | S | S | Home camera as new business segment; video surveillance solution dominant player in city/industrial sectors |
| Nationz | | | | W | | NFC chipset used in some cities |
| NavInfo | | S | | | | In-dash navigation leader (c.50% revenue in 2014E) |
| Sunny | | M | | W | W | Vehicle lens (used on vehicle sensors) business ramp up fast; surveillance camera lens supplier |
| Dahua | | | | S | S | Dominant player in video surveillance and solution capacity expected in the near term |
| Joyson | | S | | | | Car electronics market leader |
| Luxshare | M | W | | | | Apple Watch accessory supplier; car connector c.13% revenue in 2014E |
| O-Film | W | | | | | Metal mesh technology enables flexible touch screen (can be used on wearables) |

| | |
|--------------|--------------------------|
| S (Strong) | Strong exposure |
| M (Moderate) | Moderate exposure |
| W (Weak) | Small/potential exposure |

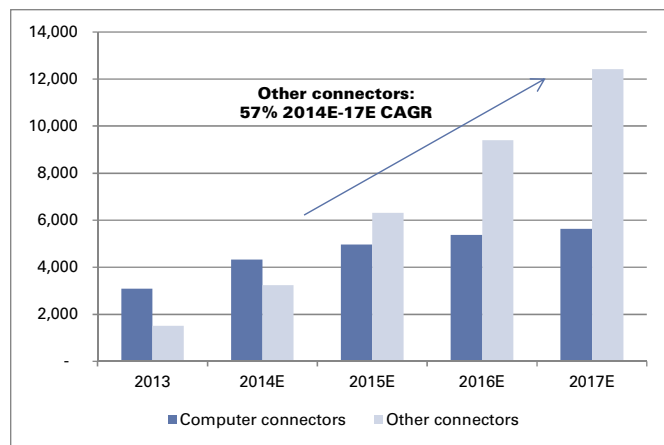
Source: Company data, Gao Hua Securities Research.

Diversified products and clients to drive growth across cycles

Thanks to Luxshare’s continuous investment into new technology and applications, its manufacturing base allows it to make connector product across many applications — PCs, smart/mobile devices, consumer electronics, automobiles and telecommunication. We believe this diversification, together with its strong operation management capability, will help Luxshare further penetrate into new TAMs, and thereby achieve sustainable growth across cycles. Specifically, we identify three major drivers for Luxshare’s strong earnings growth: **PC Connectors; Apple supply chain; USB upgrade.**

Exhibit 16: We expect other connector segment to outstrip the computer segment in 2015...

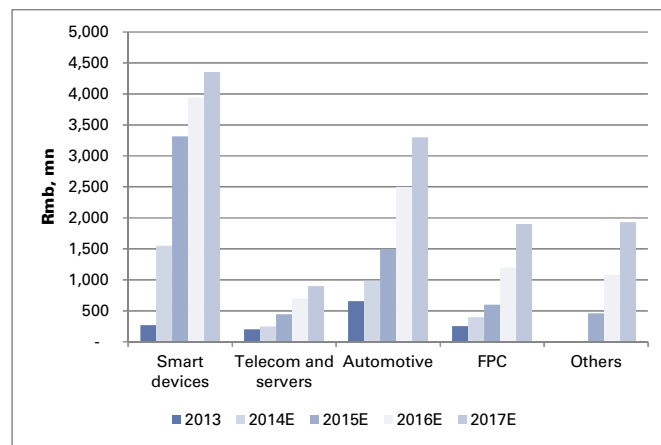
Luxshare revenue breakdown by product



Source: Company data, Gao Hua Securities Research

Exhibit 17: ...while smart device connectors are the near-term revenue driver within the other connector segment

Luxshare "other connectors" revenue breakdown



Source: Company data, Gao Hua Securities Research

Exhibit 18: Luxshare has a broad spectrum of connector products across various applications

Luxshare product line matrix

| Desktop PC | Description |
|-----------------------------------|--|
| Front I/O cable assembly | USB, audio input/output, power button cables on the front face of PC |
| SATA Data Cable assembly | Data transfer and power supply cable for hard drive/CD-ROM |
| Display cable assembly | Cables for display/projector connection |
| Internal cable assembly | Other cables inside PC |
| Rear I/O cable assembly | Mouse, keyboard and other peripheral connection cables |
| Notebook PC | |
| Display cable assembly | Cables for computer system and LCD display connection |
| RF cable assembly | Antenna for wireless connection |
| I/O cable assembly | Network connection cable, power charger cable, USB |
| Other internal cable assembly | Hard driver/CD-ROM/audio/camera connection cables, FFC/FPC |
| Smart device/consumer electronics | |
| RF cable assembly | LDS, ETS Antenna |
| Data transfer cable assembly | Connection cables for consumer electronic devices to other devices |
| Charger cable assembly | Charger cables for consumer electronics |
| Other internal cable assembly | PCB/FPC, switch, BTB connector |
| Automobile | |
| USB cable assembly | For USB connection to thumb driver/smartphone/music players |
| AV cable assembly | Infotainment connection cables |
| Telecom | |
| Data transfer cable assembly | Connection cables for data transfer in disk array |
| Exchange cable assembly | Data/power cables for switching systems/network terminals |

Source: Company data.

PC connectors: Product expansion and upgrade cycles sustain growth

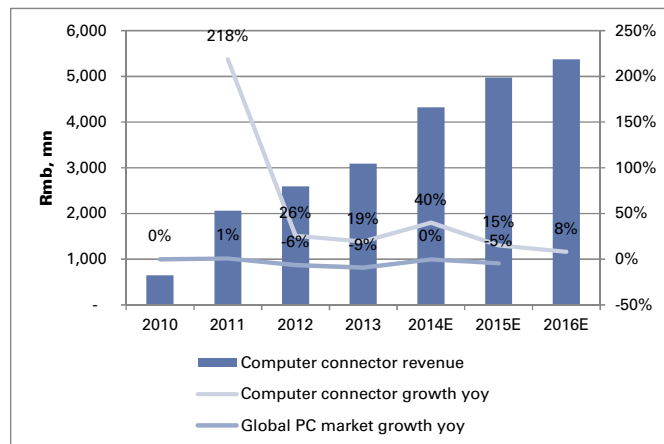
Luxshare's traditional business is PC connectors and this remains the biggest revenue contributor (57% in 2014E). Although the PC market is facing demand headwinds, we expect Luxshare to leverage its strong client relationship with Apple and Lenovo, who are to remain competitive in the consolidating market.

Before 2013, Luxshare mainly focused its product portfolio expansion in the PC market. It expanded product categories from 5 to over 20 in 2012-2013. In 2014, Luxshare's high growth in

the PC segment (revenue up 54% yoy to Rmb1.8bn in 1H14) benefitting from product upgrades — for example, when the USB portal was upgraded to USB3.0 as standard, ASP rose from US\$1 to US\$3. We believe Luxshare can maintain stable and above-industry growth for the business (9% revenue CAGR for 2014E-17E vs stagnant/negative industry growth), supported by the product expansion and upgrades.

Exhibit 19: Luxshare’s PC connector business continues to outpace the PC market...

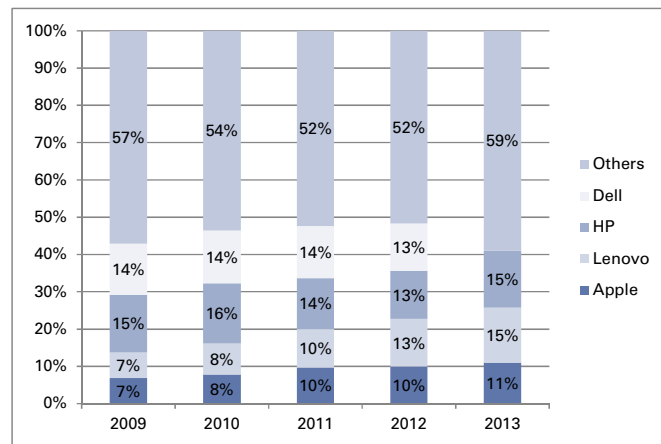
Luxshare computer connector revenue and growth vs. market growth



Source: Company data, Gao Hua Securities Research, Goldman Sachs Global Investment Research.

Exhibit 20: ... along with its clients like Lenovo and Apple

PC market share breakdown by vendors



Note: Dell 2013 market share is not available due to privatization.

Source: Company data, Goldman Sachs Global Investment Research.

Apple business bearing more abundant fruit; Apple Watch in 2015

In September 2014, Apple announced its long-awaited smart watch product line: Apple Watch. Although the exact launch date is not yet clear, we believe Luxshare is a major supplier of the wireless charger according to our channel checks. Although demand for Apple Watch, as a new product category for Apple, lacks visibility (our Apple analyst Bill Shope estimates 9.5mn shipments in 2015), we see two primary benefits from Luxshare winning a role in this product:

- Increasing involvement with Apple product components design process and hence potentially seizing new opportunities at other Apple products;
- Becoming an Apple Watch supplier would give Luxshare the right credentials in wearable devices to win other potential clients in the future.

We also expect that if Apple were to launch other new product lines in 2015, such as audio products (including Beats) or other accessories, Luxshare would be well placed to become a core supplier, leveraging its solid record and fast response to requirements. Luxshare could also benefit from any component upgrade or design renewal, as it has been deeply involved in Apple’s component design process.

Overall, we expect Luxshare’s revenue from Apple to be Rmb2.4bn/4.2bn/4.8bn/5.1bn for 2014E-17E, account for 32%/37%/33%/29% of total revenue, respectively. We expect 2015E to be the peak year for Apple business contribution. After that, although the business is also growing fast, with upside potential from new products, we see the relative contribution declining gradually as other new businesses such as USB 3.1, FPC, telecom, and auto ramp-up.

USB 3.1 upgrade the next big cycle

The Type-C is the next generation of cable USB to use the USB 3.1 standard. Currently, smart devices use Type-A and Type-B in combination. Type-A is the standard rectangular USB plug, and Type-B is the other end of the cable, which typically varies from device to device. Type-C is a significant design refresh and upgrade to the combination and the following points are worth noting:

- Type-C has a symmetric/reversible design, meaning each end is the same, and the plug doesn't distinguish which is the upside or downside when plugging it in (just like the Apple Lightning port).
- Type-C plug is thinner/smaller (similar to the Lightning), to meet the trend of thinner mobile devices.
- Type-C supports USB 3.1 standard, which allows 10Gbps data speed (double that of USB 3.0) and up to 100W power output. A 15-inch laptop requires around 60W of power, which means that a Type-C USB cable could be used to charge a laptop in the same way as smart devices are charged today.
- The European Commission set out a common external power supply initiative in 2009, which encourages mobile phones sold in EU to use a universal charging cable. In March 2014, a draft law on this issue was approved by Members of the European Parliament. If the law is also approved by the Council of Europe and legislated, mobile device manufacturers will need to comply by 2017. We think Type-C could meet requirements.

While we believe the upgrade cycle is promising, we also see some potential for drag: (1) Thunderbolt, a competing technology developed by Intel, is faster. The 2.0 standard could support 20Gbps speed, which is even able to support 4K video resolution; (2) The installation of Type-A/B is already high and the Type-C cable is not physically compatible with Type-A plug, thus would require an adaptor.

For 2015, we expect domestic smartphone makers to adopt a simplified version of Type C in 1H15, called a fast charging cable, with fewer pins and lower speed than the full-blooded Type C. Considering the European Commission's suggested timeline, we believe global brand names will start to comply meaningfully in 2016.

Other drivers: Gaming, FPC, antenna, telecom, and auto

Besides the major drivers above, Luxshare also has a broad spectrum of product lines that could grow its scale and relieve business concentration risks:

- Luxshare is a major connector supplier to Sony's **game consoles**, and is gradually increasing its share to Nintendo and Microsoft's new game console models. We believe this business could be driven by category expansion and share improvement at Nintendo/Microsoft in the next few years.
- To coordinate with its connector business and expand its categories in the smart device supply chain, Luxshare entered **FPC** and **antenna** business through the acquisition of Zhuhai All-winner in September 2012. Luxshare is developing this business by leveraging its current smart device client qualifications and relationships. It keeps expanding All-winner's capacity and then enters different tiers of clients gradually. Combined, its own connector capability, the FPC/antenna business from All-winner and **casing** by Toshima Suzhou, Luxshare will be able to supply modules or even complete accessory products to its smart device clients in the mid-term.
- **Telecommunication** is a big TAM for the global connector market. Luxshare entered the Huawei supply chain in 2011 through the acquisition of Keertong. Currently its clients are

mainly Huawei and H3C (under HP). As the authentication process for products in this industry is typically long, we believe this area could provide growth impetus only in the medium-term.

- By acquiring Fujian JK Wiring System, Luxshare entered the **auto component** market. However, the auto connector market has extremely high entry-barriers and the market is dominated by global makers like Delphi, Yazaki and Sumitomo. We believe Luxshare is still in the process of building up capabilities in the auto electronic business in the long run, through both organic and external avenues.

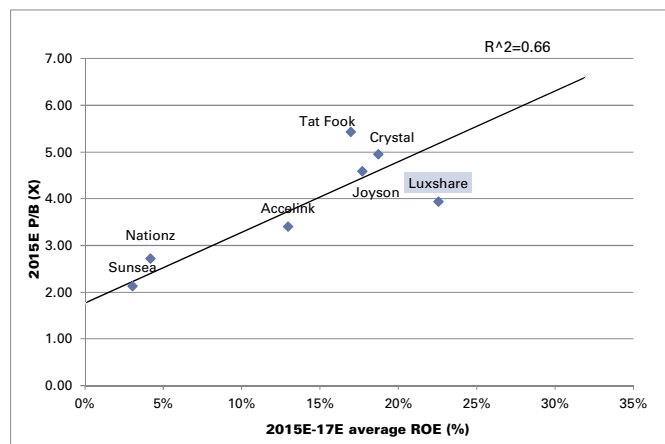
Valuation: First among the Contenders, initiate at Buy (CL)

Our P/B vs. ROE-based 12-month target price of Rmb42.0 suggests 32% upside for Luxshare. We derive our target price using our China A-share “Hardware Contender” peer group sector average P/B-ROE. For our target price, we apply a 15% premium to the sector P/B-ROE valuation to account for: (1) Its top earnings growth rate in the Contender group; 2) Its first quartile ROE and first/second quartile CROCI from 2015 to 2017.

We cross-check our target price using 2015 EV/GCI vs. CROCI/WACC, which gives a valuation of Rmb38.1, also suggesting upside for the stock.

Exhibit 21: Our P/B vs. ROE-based target price suggests 32% upside for Luxshare

2015E P/B vs. 2015E-17E average ROE of hardware Contender group (post-premium)



Source: Gao Hua Securities Research

Exhibit 22: We derive a 12-month target price of Rmb42.0

Luxshare P/B vs. ROE target price derivation steps

| Luxshare P/B vs. ROE target price derivation | | |
|--|-------|--|
| 2015E-17E avg. ROE | 22.6% | From financial model |
| Regression slope | 15.1 | Derived from regression |
| Regression intercept | 1.8 | Derived from regression |
| Target P/B | 5.2 | =Avg ROE x Slope + Intercept |
| 2015E BVPS | 7.0 | From financial model |
| P/B valuation | 36.5 | =Target P/B x BVPS |
| Premium applied | 15% | Given based on historical valuation and fundamentals |
| Target Price | 42.0 | =Target price x (1+Premium) |

Source: Gao Hua Securities Research

ROE improving

We see the ROE of Luxshare continue to improve from 2014, driven by a better turnover to asset ratio and net margin. It suggests that Luxshare is improving its operation efficiency and operating leverage to achieve better ROE.

Exhibit 23: Luxshare to reach 1st quartile ROE in 2015

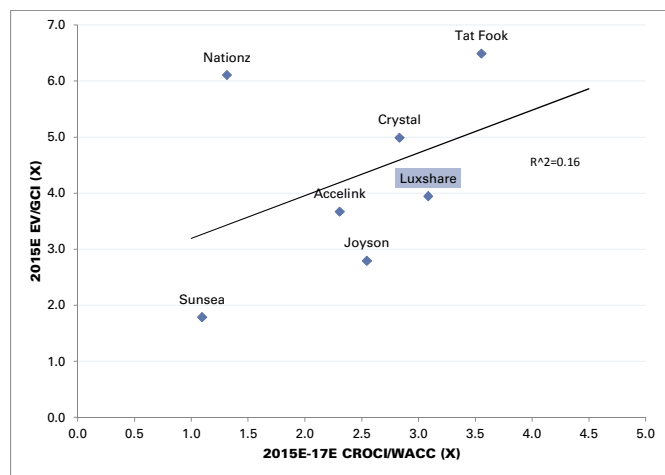
Hardware contender group ROE and quartiling

| ROE | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E | 2017E | |
|----------|-----------|------|------|------|------|------|------|-------|-------|-------|-------|--------------|
| Accelink | 002281.SZ | 32% | 17% | 13% | 10% | 12% | 10% | 10% | 11% | 13% | 14% | 1st quartile |
| Nationz | 300077.SZ | 32% | 76% | 12% | 4% | 2% | 0% | 1% | 3% | 4% | 6% | 2nd quartile |
| Tat Fook | 300134.SZ | 55% | 64% | 18% | 8% | -9% | 3% | 24% | 16% | 17% | 18% | 3rd quartile |
| Sunsea | 002313.SZ | 21% | 14% | 11% | 15% | 11% | 3% | 1% | 2% | 4% | 5% | 4th quartile |
| Crystal | 002273.SZ | 20% | 14% | 21% | 17% | 15% | 11% | 14% | 17% | 19% | 20% | |
| Luxshare | 002475.SZ | 30% | 28% | 12% | 15% | 14% | 16% | 18% | 20% | 21% | 21% | |
| Joyson | 600699.SS | -52% | 0% | 0% | 54% | 18% | 15% | 15% | 17% | 18% | 18% | |

Source: Company data, Gao Hua Securities Research.

Exhibit 24: Our EV/GCI vs. CROCI/WACC cross-check identifies upside for Luxshare

2015E EV/GCI vs. 2015E-17E average CROCI/WACC of Hardware Contender group



Source: Gao Hua Securities Research

Exhibit 25: Our cross-check valuation is Rmb38.1

Luxshare EV/GCI vs. CROCI/WACC valuation

| Luxshare EV/GCI vs. CROCI/WACC target price derivation | |
|--|--------------------------------------|
| 2015E-17E avg. CROCI | 25.7% From financial model |
| WACC | 8.3% Calculation & assumption |
| Regression slope | 0.76 Derived from regression |
| Regression intercept | 2.43 Derived from regression |
| Implied 2015 EV/GCI | 4.78 =CROCI/WACC x slope + intercept |
| 2015E GCI | 6,710 From financial model |
| Implied EV | 32,099 =EV/GCI x GCI |
| 2015E Net Debt | 414 From financial model |
| Implied equity value | 31,685 =EV-Net debt |
| Share count | 832 From financial model |
| Valuation | 38.1 =Equity value/share count |

Source: Gao Hua Securities Research

CROCI improving, then flattening

We expect Luxshare's CROCI to improve to 22%-23% and remain at this level through 2017E, driven by better cash performance due to margin improvement through product mix/upgrade. We also expect it to enjoy operating leverage as it becomes a "10bn" (revenue size to reach over Rmb10bn in 2015E) company.

Exhibit 26: Luxshare to maintain 1st/2nd quartile CROCI from 2015

Hardware Contender group CROCI and quartiling

| Adjusted CROCI | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E | 2017E | |
|----------------|-----------|------|------|------|------|------|------|-------|-------|-------|-------|--------------|
| Accelink | 002281.SZ | 60% | 21% | 14% | 12% | 31% | 12% | 17% | 17% | 18% | 18% | 1st quartile |
| Nationz | 300077.SZ | 55% | 99% | 12% | 5% | 2% | 2% | 3% | 4% | 5% | 7% | 2nd quartile |
| Tat Fook | 300134.SZ | 17% | 101% | 22% | 6% | -10% | 18% | 31% | 23% | 22% | 20% | 3rd quartile |
| Sunsea | 002313.SZ | 26% | 19% | 12% | 20% | 24% | 8% | 8% | 10% | 10% | 10% | 4th quartile |
| Crystal | 002273.SZ | 25% | 20% | 26% | 24% | 21% | 18% | 21% | 22% | 22% | 22% | |
| Luxshare | 002475.SZ | 30% | 38% | 13% | 42% | 16% | 21% | 21% | 23% | 23% | 22% | |
| Joyson | 600699.SS | 6% | 1% | 0% | 102% | 51% | 24% | 21% | 20% | 19% | 19% | |

Source: Company data, Gao Hua Securities Research.

We are more positive on margins than consensus

Our estimates for Luxshare are generally more bullish than market consensus, as we believe, besides the scale effect, Luxshare should also benefit from yield and know-how improvement at new products such as the Lightning cable and charging cable. And although our revenue forecasts are pretty much in line with Wind consensus, our expectation of these improvements means we think Luxshare will enjoy higher margins than consensus, due to better product mix/GM, in our view (Exhibits 32 and 33).

Exhibit 27: Our EPS are generally above Wind consensus, likely due to gross margin assumptions

Key estimates summary

| | 2014E | 2015E | 2016E | 2017E |
|---------------------------|-------|--------|--------|--------|
| GH estimates | | | | |
| Revenue (Rmb, mn) | 7,557 | 11,280 | 14,769 | 18,046 |
| EBIT (Rmb, mn) | 938 | 1,443 | 1,910 | 2,369 |
| EPS (Rmb) | 0.83 | 1.30 | 1.83 | 2.36 |
| vs. Wind consensus | | | | |
| Revenue | 0% | 2% | -4% | NA |
| EBIT | 11% | 18% | 21% | NA |
| EPS | 7% | 8% | 10% | NA |

Source: Gao Hua Securities Research, Wind.

Exhibit 28: We expect Luxshare's ROE to rise to 20% level

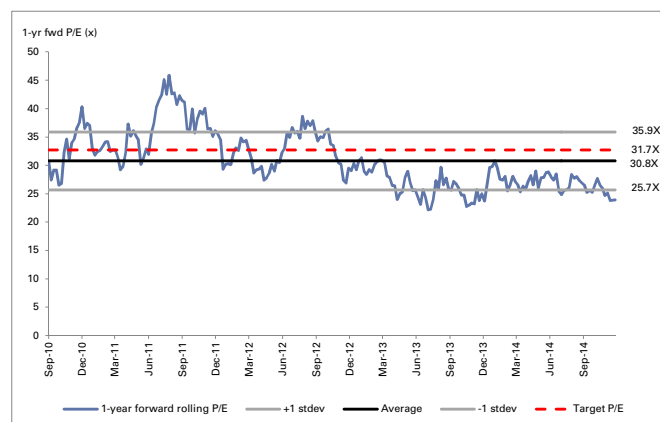
12m forward P/B vs. ROE



Source: Company data, Gao Hua Securities Research, Datastream.

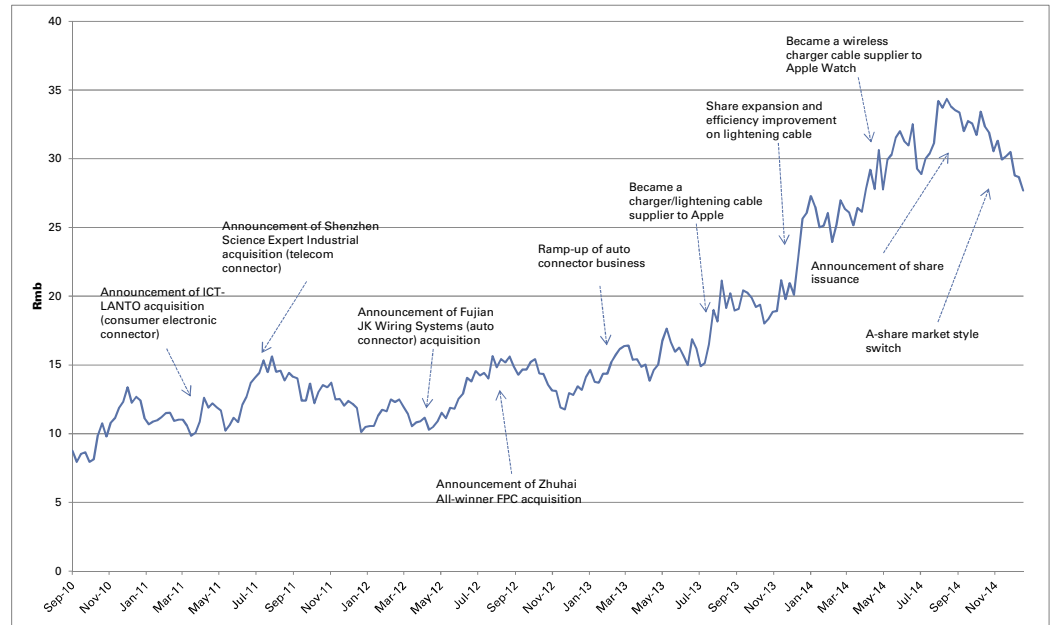
Exhibit 29: Luxshare is trading well below its historical average P/E level since IPO

12m forward P/E



Source: Company data, Gao Hua Securities Research, Datastream.

Exhibit 30: Luxshare stock price has tripled since IPO
Luxshare share price performance

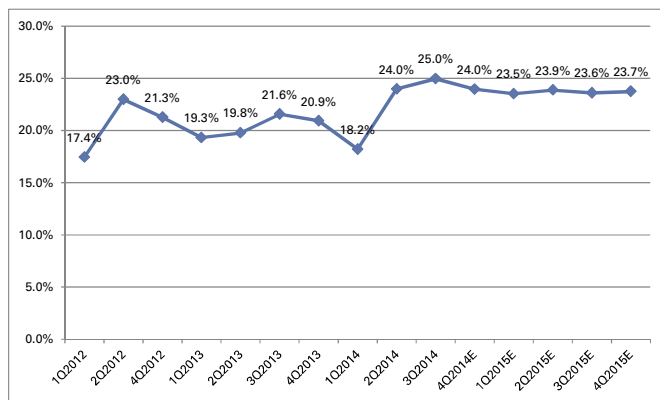


Source: Datastream, Gao Hua Securities Research.

Gross margins to improve; but not yet at global peer levels

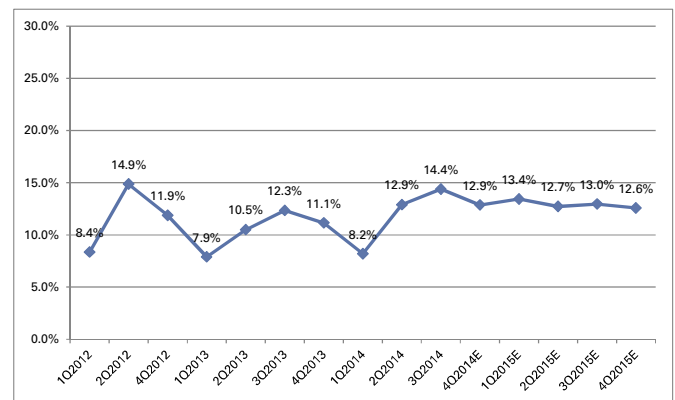
We expect Luxshare to maintain its gross margin level throughout 2015 after a significant GM lift in 2Q14 due to ramp-up in the Lightning cable. The margin will benefit from introduction of new products (such as Apple Watch wireless charger and fast charger for other smartphones). Luxshare’s operating margin would slowly decline as we expect mild expense increase (as a % of revenue) due to the expansion of multiple new business lines.

Exhibit 31: Luxshare GM leap in 2Q14 thanks to ramp-up in Lightning cable
Luxshare quarterly gross margin



Source: Company data, Gao Hua Securities Research.

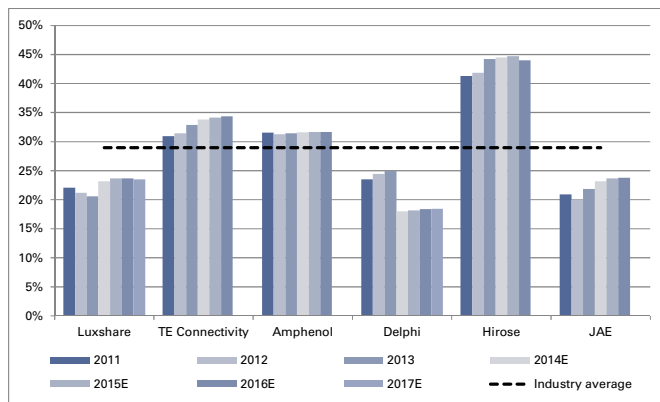
Exhibit 32: GM improvement helped the OPM and we expect slow decline in 2015
Luxshare quarterly operating profit margin



Source: Company data, Gao Hua Securities Research.

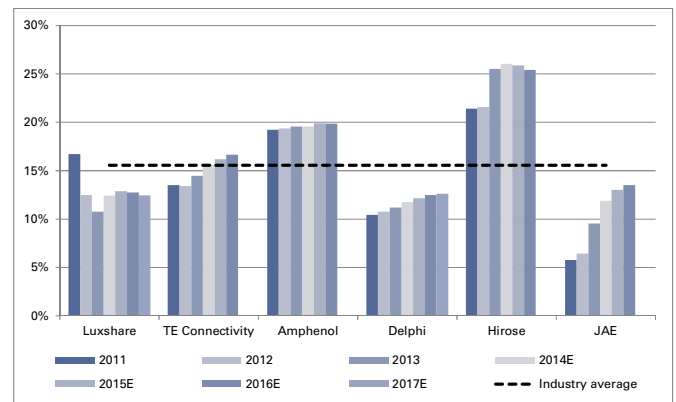
While Luxshare is a strong player in the consumer electronics space (mainly PC and smart devices), which are driving its rapid revenue growth, global connector leaders enjoy much higher gross margins by supplying products to the auto and telecom segments (some at over 30% vs. only 20%+ level for Luxshare). These segments require strong technological expertise that sets high barriers for new entrants. As previously discussed, we have seen Luxshare making early moves towards those segments and to act like a contender in the broader connector market.

Exhibit 33: Luxshare has the potential to improve its GM by entering new TAMs like auto / industrial connectors...
Global connector maker gross margin comparison



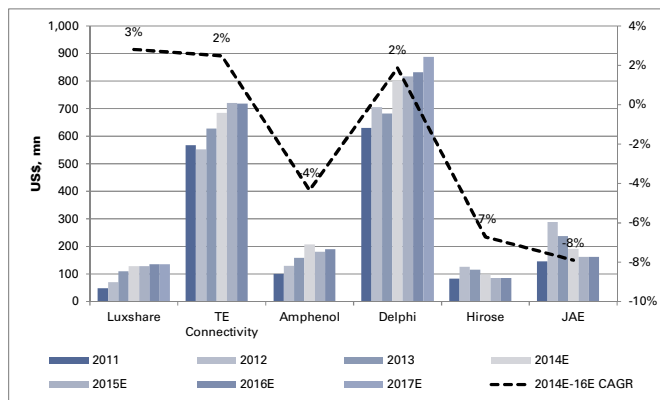
Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 34: ... similar for operating margin improvement via operating leverage
Global connector maker operating margin comparison



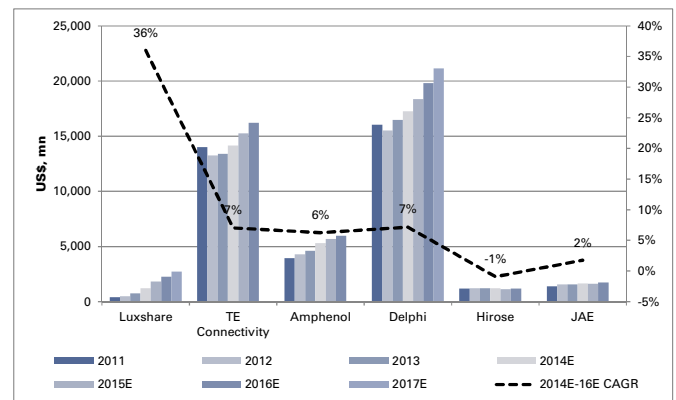
Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 35: We expect Luxshare capex growth to flatten out
Global connector maker capex comparison



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 36: Luxshare revenue growth to outpace peers
Global connector maker revenue growth comparison

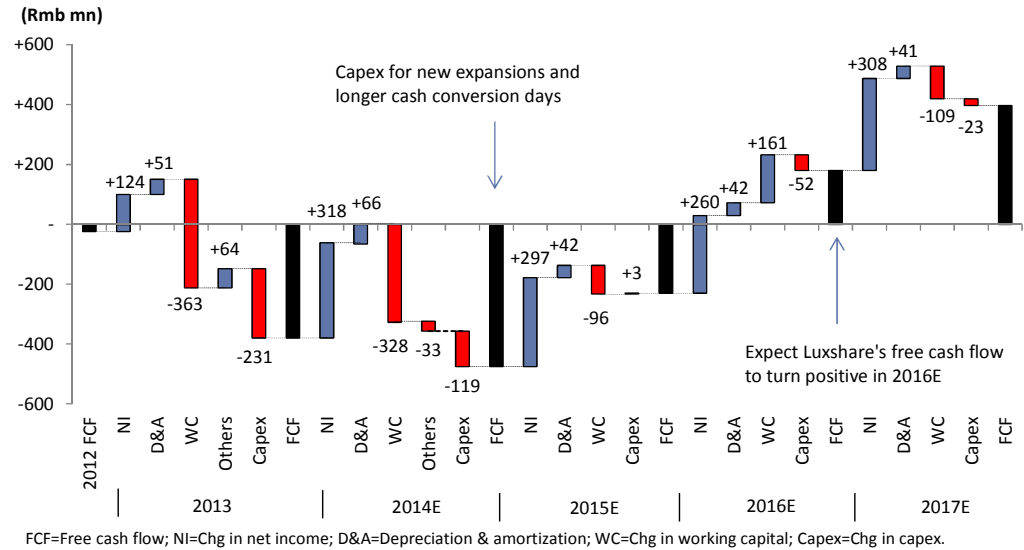


Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Turning cash flow positive in 2016

On the financial performance side, we expect Luxshare's free cash flow to turn positive in 2016E, mainly through earnings growth, better cash management and a slowdown of capex.

Exhibit 37: We expect Luxshare's free cash flow to turn positive by 2016
Luxshare free cash flow trend, 2013-2017E

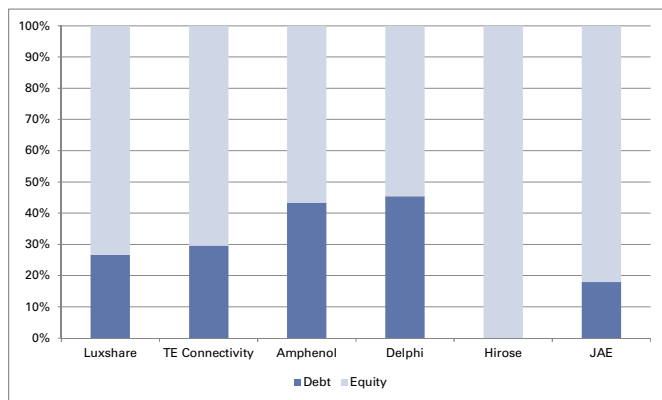


Source: Company data, Gao Hua Securities Research.

Debt at 25% of capital

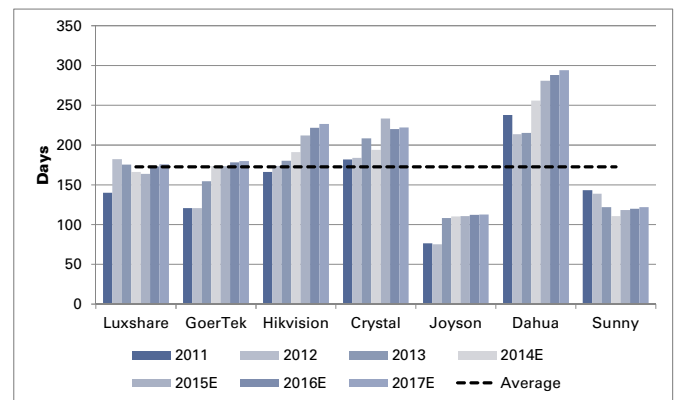
As a technology/manufacturing company, Luxshare has a healthy portion of debt to reduce its cost of capital, generally in line with global players. In the Chinese electronic component maker group under our coverage, Luxshare exhibits a reasonable level of cash management capability, with cash outstanding days between 150 and 200 days.

Exhibit 38: Luxshare has a healthy portion of debt
Global connect maker capital structure in 2014E



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 39: Luxshare's cash management capability is in line with other covered electronic companies
Electronic component maker receivable + inventory days



Source: Company data, Gao Hua Securities Research.

Exhibit 40: Our hardware coverage and global connector comp

| Company name | Ticker | Rating | Market cap (\$ mn) | Pricing currency | 12-m TP | Current price | Upside/downside | P/E (X) | | P/B (X) | | ROE | | FCF yield | |
|---|-----------|---------|--------------------|------------------|---------|---------------|-----------------|-------------|-------------|------------|------------|------------|------------|-----------|-----------|
| | | | | | | | | 15E | 16E | 15E | 16E | 15E | 16E | 15E | 16E |
| Leader group | | | | | | | | | | | | | | | |
| Hangzhou Hikvision | 002415.SZ | Buy | 17,985 | CNY | 33.2 | 27.21 | 22% | 17.7 | 13.9 | 5.9 | 4.6 | 38% | 37% | 2% | 4% |
| GoerTek Inc. | 002241.SZ | Buy | 7,240 | CNY | 34.1 | 28.06 | 22% | 18.8 | 15.3 | 4.3 | 3.4 | 25% | 25% | 1% | 3% |
| Fiberhome Telecom Tech | 600498.SS | Neutral | 2,677 | CNY | 16.0 | 16.42 | -3% | 22.6 | 19.5 | 2.4 | 2.2 | 10% | 10% | 2% | 2% |
| Shenzhen O-Film Tech Co Ltd | 002456.SZ | Neutral | 3,492 | CNY | 20.4 | 19.09 | 7% | 17.6 | 15.2 | 2.9 | 2.5 | 17% | 17% | 0% | 1% |
| Zhejiang Dahua Technology Co., Ltd. | 002236.SZ | Neutral | 5,060 | CNY | 24.6 | 25.76 | -5% | 17.9 | 14.8 | 4.5 | 3.6 | 28% | 27% | 0% | 1% |
| | | | | | | | Average | 18.9 | 15.7 | 4.0 | 3.3 | 24% | 23% | 1% | 2% |
| | | | | | | | Median | 17.9 | 15.2 | 4.3 | 3.4 | 25% | 25% | 1% | 2% |
| Contender group | | | | | | | | | | | | | | | |
| Shenzhen Luxshare Precision Industry Co Ltd | 002475.SZ | Buy* | 4,416 | CNY | 42.0 | 31.89 | 32% | 24.6 | 17.5 | 4.5 | 3.7 | 17% | 20% | -1% | 1% |
| Sunsea Telecommunications | 002313.SZ | Neutral | 590 | CNY | 11.9 | 11.33 | 5% | 98.4 | 55.1 | 1.8 | 1.8 | 2% | 3% | -2% | -2% |
| Accelink Technologies | 002281.SZ | Neutral | 1,144 | CNY | 39.5 | 36.09 | 9% | 31.1 | 24.6 | 3.4 | 3.1 | 11% | 13% | 0% | 1% |
| Zhejiang Crystal-Optech Co. | 002273.SZ | Neutral | 1,142 | CNY | 17.3 | 18.56 | -7% | 30.1 | 24.5 | 4.9 | 4.3 | 17% | 19% | 1% | 1% |
| Ningbo Joyson Electronic | 600699.SS | Neutral | 2,345 | CNY | 22.0 | 22.70 | -3% | 29.0 | 23.6 | 4.6 | 3.8 | 17% | 17% | 1% | 2% |
| Nationz Technologies | 300077.SZ | Neutral | 1,259 | CNY | 24.5 | 27.79 | -12% | 94.0 | 66.7 | 2.7 | 2.6 | 3% | 4% | -1% | -2% |
| Shenzhen Tat Fook Technology | 300134.SZ | Sell | 2,393 | CNY | 30.2 | 37.82 | -20% | 31.6 | 27.0 | 4.9 | 4.3 | 16% | 17% | 2% | 2% |
| | | | | | | | Average | 48.4 | 34.1 | 3.8 | 3.4 | 12% | 13% | 0% | 0% |
| | | | | | | | Median | 31.1 | 24.6 | 4.5 | 3.7 | 16% | 17% | 0% | 1% |
| Global connector peers | | | | | | | | | | | | | | | |
| TE Connectivity Ltd. | TEL | Buy | 26,050 | USD | 72.0 | 62.62 | 15% | 14.6 | 13.2 | 2.6 | 2.4 | 19% | 19% | 6% | 7% |
| Amphenol Corp. | APH | Neutral | 16,939 | USD | 49.0 | 52.83 | -7% | 21.6 | 20.3 | 5.0 | 4.7 | 25% | 24% | 5% | 5% |
| Delphi Automotive PLC | DLPH | Buy | 20,200 | USD | 83.0 | 67.65 | 23% | 11.7 | 10.5 | 5.0 | 3.8 | 42% | 36% | 7% | 8% |
| Hirose Electric | 6806.T | Neutral | 4,087 | JPY | 14800.0 | 13590.00 | 9% | 21.6 | 21.0 | 1.7 | 1.6 | 8% | 8% | 5% | 5% |
| Japan Aviation Electronics Industry | 6807.T | Neutral | 2,133 | JPY | 2340.0 | 2789.00 | -16% | 15.6 | 14.0 | 2.4 | 2.1 | 17% | 16% | 7% | 7% |
| | | | | | | | Average | 17.0 | 15.8 | 3.3 | 2.9 | 22% | 20% | 6% | 6% |
| | | | | | | | Median | 15.6 | 14.0 | 2.6 | 2.4 | 19% | 19% | 6% | 7% |

Note: * denotes the share is on our regional Conviction list

Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Key downside risks to our investment thesis

- Delay of key products at major clients: Consumer electronics supply chains depends greatly on clients' (predominantly major brand names) product launch plans. Therefore any delay in the launch of key products at Luxshare's major clients could become risks to our near term earnings estimates.
- PC market volume & ASP pressures: Luxshare still has over 50% revenue exposure to legacy PC market (as of 2014E). Although the company has been taking market share and has benefited from product/ASP upgrades, any higher-than-expected volume & ASP pressure in the PC market could still affect Luxshare's earnings;
- New business investment risk: As Luxshare maintains its high level of investment into new areas such as telecom and auto connectors, higher-than-expected opex for these new businesses could erode margins.

Appendix: Company profile

Luxshare manufactures electronic connector products such as smart-phone connection cables, device chargers and USB ports. Its products are widely used in a wide range of products: computers, smart phones, tablets, wearable smart devices, game consoles, telecom equipment and automobiles.

Due to this broad base, Luxshare has a well-diversified client portfolio, with major clients including Apple, Lenovo, Huawei, Sony, Nintendo, and some global auto component suppliers.

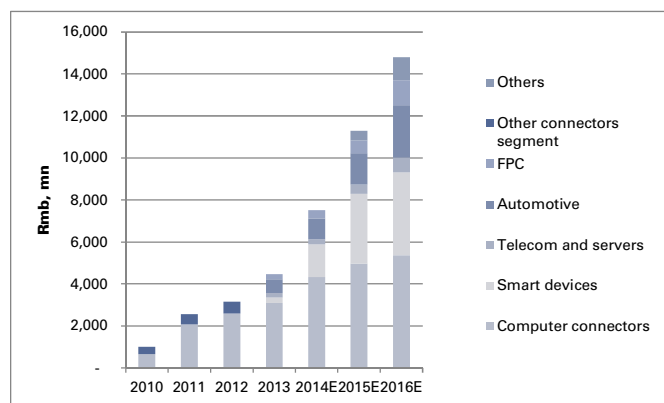
Historically, Luxshare has been able to leverage its financial strength and capital operation to grow its business lines through mergers and acquisitions. It has made various acquisitions over the past four years to break into new markets and major product supply chains. It has made these acquisitions: (1) ICT-Lanto and Kunshan Lanto in Apr 2011 to expand its connector business capacity and enter Apple supply chain; (2) Zhuhai All-winner to enter the FPC business in Sep 2012; (3) Fujian JK Wiring Systems in May 2012 and Suk Kunststofftechnik GmbH in Oct 2013 to expand auto connector business; (4) Shenzhen Science Expert Industrial in Nov 2011 for telecom equipment connector business.

Exhibit 41: Luxshare has a broad product lineup, in multiple subsidiaries
Luxshare key subsidiaries summary

| Subsidiary | Location | | Main business | Stake (%) |
|---|-----------|----------|---|-----------|
| PC connector | | | | |
| Xiexun Electronic (Ji'an) Co., Ltd. | Jiangxi | Ji'an | PC connector, entered Apple supply chain in 2014 | 100% |
| Guangdong Xiechuang Precision Industry Co., Ltd. | Guangdong | Dongguan | PC connector, smartphone parts | 75% |
| ASAP Technology (Jiangxi) Co., Ltd. | Jiangxi | Ji'an | PC connector, power cable | 100% |
| Dongguan Leader Precision Industry Co., Ltd. | Guangdong | Dongguan | PC connector | 100% |
| Wan'an Xiexun Electronic Co., Ltd. | Jiangxi | Wan'an | PC connector | 100% |
| Bozhou Lanto Electronic Ltd. | Anhui | Bozhou | Notebook connector (excl. Apple) | 100% |
| Apple | | | | |
| Kunshan Lanto Electronic Ltd. | Jiangsu | Kunshan | Apple | 100% |
| Toshima Electronics Technology (Suzhou) Co., Ltd. | Jiangsu | Suzhou | Keyboard, button, accessories | 100% |
| Auto | | | | |
| Luxshare Precision Industry (Kunshan) Co., Ltd. | Jiangsu | Kunshan | Auto connector, auto electronics; key clients: Delphi, Ford, Dongfeng Citroen | 100% |
| Fujian JK Wiring Systems Co., Ltd. (China) | Fujian | Fuzhou | Auto connector; client: Denso | 55% |
| SuK Kunststofftechnik GmbH | Germany | | Molding for auto, healthcare, and industry | 100% |
| FPC | | | | |
| Zhuhai All-Winner FPC Co., Ltd. | Guangdong | Zhuhai | FPC | 100% |
| Telecom, server | | | | |
| Shenzhen Science Expert Industrial Co., Ltd. | Guangdong | Shenzhen | Telecom; key clients: Huawei and Emerson | 100% |
| Dongguan Xuntao Electronic Co., Ltd. | Guangdong | Dongguan | Server connector | 100% |

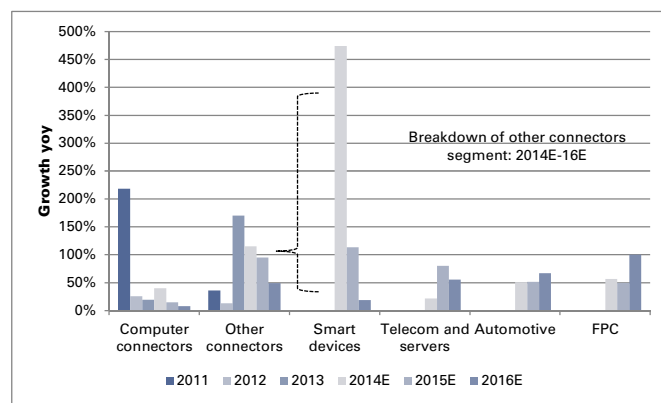
Source: Company data.

Exhibit 42: Luxshare's diversified product portfolio
Luxshare's revenue mix by product



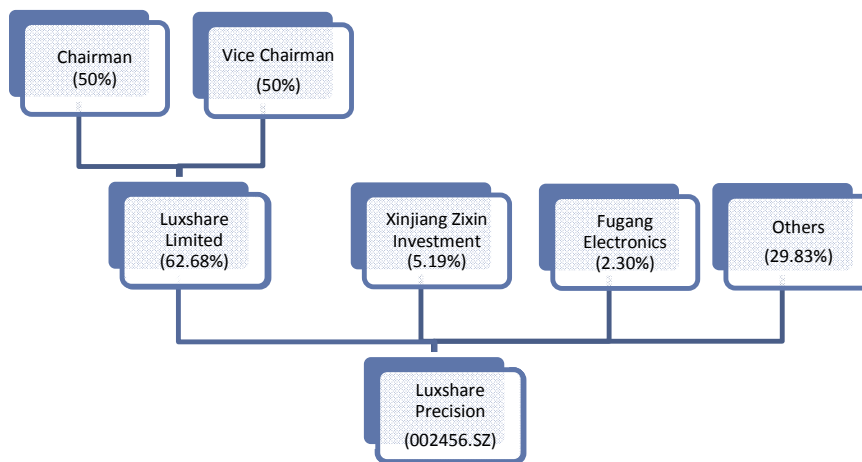
Source: Company data, Gao Hua Securities Research

Exhibit 43: Highest near-term growth in smart devices
Luxshare's revenue growth by major products



Source: Company data, Gao Hua Securities Research

Exhibit 44: Luxshare shareholder structure as of 3Q14



Source: Company data.

信息披露附录

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信息披露

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