

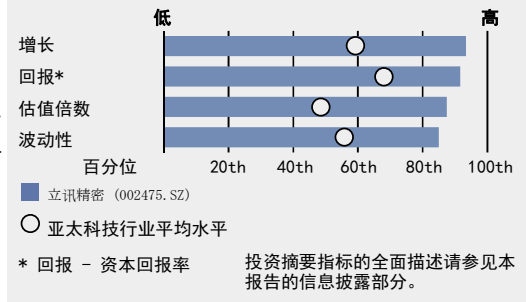


领先的连接器企业;首次覆盖加入强力买入名单,为元器件板块首选股(摘要)

建议理由

立讯精密是中国最大的连接器生产商,主要客户包括苹果。虽然公司在全球 550 亿美元的市场中仅占 2% 份额,但我们认为,借助技术优势和强劲的产品组合,到 2020 年立讯精密在这一高度分化市场中的份额势必升至当前的三倍。我们认为,对于希望提升市场份额的中国企业来说,连接器是最具吸引力的元器件子行业。有鉴于此,再加之我们 12 个月目标价格(39.7 元)所对应的 36% 上行空间,我们对立讯精密的首次评级为买入,并加入强力买入名单。而且在我们的 GS SUSTAIN 研究框架下,我们将立讯精密划入“领先者”阵营。

投资摘要



推动因素

- 市场份额扩大:** 我们认为公司将通过苹果和中国智能手机品牌扩大在闪电充电电缆、C 型连接器和天线领域的市场份额,并通过华为扩大基站产品市场份额。
- 利润率扩张:** 从 2010-2014 年,公司已将毛利率从 19% 提升至 23%,并实现了 64% 的收入增长。我们预计到 2020 年,产品结构的持续改善将推动公司利润率将进一步上升 2 个百分点。
- 并购带来协同效应:** 立讯精密过去成功地通过整合并购企业获得了新的客户资源和新的应用。公司在 2015 年收购了美律实业(Merry),并将此前收购的 FPC 工厂产能进行了扩建,我们预计这些因素将从 2017 年开始带来盈利增厚。

估值

我们基于长期贴现市盈率计算了 12 个月目标价格。我们将全球同业 20 倍的 2016 年预期市盈率均值作为 2020 年的退出市盈率,并以 8.4% 的股权成本贴现回 2016 年。公司当前股价对应 25 倍的 12 个月预期市盈率,高于全球同业的 20 倍,但是我们认为该股仍有上行空间,因其盈利前景出众:预计 2017 年每股盈利增速为 40%,高于 7% 的同业均值。

主要风险

PC 市场下滑程度甚于预期;新产品推出慢于预期。

*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

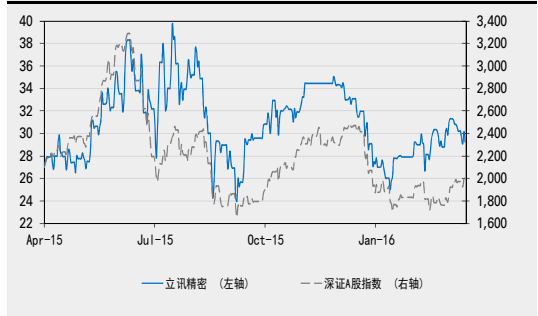
胡玲玲 执业证书编号: S1420511100002
+86(10)6627-3520 lingling.hu@ghsl.cn 北京高华证券有限责任公司

主要数据

	当前
股价 (Rmb)	29.25
12个月目标价格 (Rmb)	39.70
市值 (Rmb mn / US\$ mn)	36,501.0 / 5,635.1
外资持股比例 (%)	--

	12/15	12/16E	12/17E	12/18E
每股盈利 (Rmb) 新	0.86	1.20	1.68	2.11
每股盈利调整幅度 (%)	--	--	--	--
每股盈利增长 (%)	62.0	39.2	39.9	25.8
每股摊薄盈利 (Rmb) 新	0.86	1.20	1.68	2.11
市盈率 (X)	34.7	24.3	17.4	13.8
市净率 (X)	6.8	5.3	4.2	3.3
EV/EBITDA (X)	24.8	17.3	12.7	10.1
股息收益率 (%)	0.3	0.4	0.6	0.8
净资产回报率 (%)	21.2	24.3	26.9	26.6
ROIC (%)	22.7	24.9	26.9	27.5

股价走势图



股价表现 (%)

	3个月	6个月	12个月
绝对	(8.5)	(1.1)	12.8
相对于深证A股指数	10.6	(11.2)	15.5

资料来源: 公司数据、高盛研究预测、FactSet (股价为3/31/2016收盘价)

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。

立讯精密：财务数据概要

损益表(Rmb mn)	12/15	12/16E	12/17E	12/18E	资产负债表(Rmb mn)	12/15	12/16E	12/17E	12/18E
主营业务收入	9,912.3	13,901.8	18,166.3	22,102.5	现金及等价物	2,056.2	1,822.6	1,758.5	2,268.7
主营业务成本	(7,533.4)	(10,493.3)	(13,585.9)	(16,469.6)	应收账款	2,923.1	4,099.6	5,357.1	6,517.9
销售、一般及管理费用	(554.0)	(759.2)	(978.6)	(1,162.3)	存货	1,562.9	2,176.9	2,818.5	3,416.8
研发费用	(604.1)	(847.3)	(1,107.2)	(1,347.1)	其它流动资产	217.4	217.4	217.4	217.4
其它营业收入/(支出)	0.0	0.0	0.0	0.0	流动资产	6,759.5	8,316.5	10,151.6	12,420.7
员工股票期权费用	--	--	--	--	固定资产净额	3,052.1	3,562.4	4,283.1	4,981.0
EBITDA	1,534.5	2,160.8	2,897.5	3,563.2	无形资产净额	978.3	943.4	909.7	877.2
折旧和摊销	(313.7)	(358.8)	(402.9)	(439.8)	长期投资	113.5	113.5	113.5	113.5
EBIT	1,220.8	1,802.0	2,494.6	3,123.5	其它长期资产	154.2	154.2	154.2	154.2
利息收入	28.4	30.6	27.2	26.2	资产合计	11,057.7	13,090.0	15,612.1	18,546.6
财务费用	(16.2)	(59.1)	(49.5)	(38.9)	应付账款	2,498.1	3,479.7	4,505.2	5,461.5
联营公司	0.0	0.0	0.0	0.0	短期贷款	1,938.8	1,538.8	1,038.8	638.8
其它	101.7	58.5	52.6	52.6	其它流动负债	306.5	352.3	416.0	473.6
税前利润	1,334.7	1,832.0	2,524.9	3,163.4	流动负债	4,743.4	5,370.8	5,959.9	6,573.8
所得税	(190.9)	(267.5)	(368.6)	(461.9)	长期贷款	284.4	284.4	284.4	184.4
少数股东损益	(66.5)	(53.2)	(42.6)	(42.6)	其它长期负债	35.7	35.7	35.7	35.7
优先股股息前净利润	1,077.2	1,511.3	2,113.6	2,659.0	长期负债	320.1	320.1	320.1	220.1
优先股息	0.0	0.0	0.0	0.0	负债合计	5,063.5	5,690.9	6,280.0	6,793.9
非经常性项目前净利润	1,077.2	1,511.3	2,113.6	2,659.0	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	5,555.5	6,907.2	8,797.5	11,175.6
净利润	1,077.2	1,511.3	2,113.6	2,659.0	少数股东权益	438.7	491.9	534.5	577.1
每股基本盈利(非经常性项目前)(Rmb)	0.86	1.20	1.68	2.11	负债及股东权益合计	11,057.7	13,090.0	15,612.1	18,546.6
每股基本盈利(非经常性项目后)(Rmb)	0.86	1.20	1.68	2.11	每股净资产(Rmb)	4.42	5.49	7.00	8.89
每股摊薄盈利(非经常性项目后)(Rmb)	0.86	1.20	1.68	2.11					
不含员工股票期权费用的每股盈利(基本)	--	--	--	--	比率	12/15	12/16E	12/17E	12/18E
不含员工股票期权费用的每股盈利(摊薄)	--	--	--	--	CROCI (%)	22.7	24.9	26.9	27.5
每股股息(Rmb)	0.09	0.13	0.18	0.22	净资产回报率(%)	21.2	24.3	26.9	26.6
股息支付率(%)	10.5	10.6	10.6	10.6	总资产回报率(%)	10.4	12.5	14.7	15.6
自由现金流收益率(%)	0.2	0.8	1.6	3.3	平均运用资本回报率(%)	20.0	23.4	26.7	28.2
					存货周转天数	66.0	65.0	67.1	69.1
增长率和利润率(%)	12/15	12/16E	12/17E	12/18E	应收账款周转天数	97.1	92.2	95.0	98.1
主营业务收入增长率	35.9	40.2	30.7	21.7	应付账款周转天数	109.2	104.0	107.3	110.4
EBITDA增长率	38.4	40.8	34.1	23.0	净负债/股东权益(%)	2.8	0.0	(4.7)	(12.3)
EBIT增长率	39.2	47.6	38.4	25.2	EBIT利息保障倍数(X)	NM	63.4	111.5	245.9
净利润增长率	71.0	40.3	39.9	25.8					
每股盈利增长	62.0	39.2	39.9	25.8	估值	12/15	12/16E	12/17E	12/18E
毛利率	24.0	24.5	25.2	25.5	基本市盈率(X)	34.7	24.3	17.4	13.8
EBITDA利润率	15.5	15.5	16.0	16.1	市净率(X)	6.8	5.3	4.2	3.3
EBIT利润率	12.3	13.0	13.7	14.1	EV/EBITDA(X)	24.8	17.3	12.7	10.1
					企业价值/总投资现金(X)	5.4	4.3	3.5	2.9
					股息收益率(%)	0.3	0.4	0.6	0.8
现金流量表(Rmb mn)	12/15	12/16E	12/17E	12/18E					
优先股股息前净利润	1,077.2	1,511.3	2,113.6	2,659.0					
折旧及摊销	313.7	358.8	402.9	439.8					
少数股东权益	66.5	53.2	42.6	42.6					
运营资本增减	(484.6)	(809.0)	(873.6)	(802.8)					
其它	0.0	0.0	0.0	0.0					
经营活动产生的现金流	972.9	1,114.3	1,685.5	2,338.6					
资本开支	(892.1)	(834.1)	(1,090.0)	(1,105.1)					
收购	0.0	0.0	0.0	0.0					
剥离	0.0	0.0	0.0	0.0					
其它	0.0	0.0	0.0	0.0					
投资活动产生的现金流	(892.1)	(834.1)	(1,090.0)	(1,105.1)					
支付股息的现金(普通股和优先股)	(66.6)	(113.8)	(159.6)	(223.3)					
借款增减	(200.0)	(400.0)	(500.0)	(500.0)					
普通股发行(回购)	0.0	0.0	0.0	0.0					
其它	0.0	0.0	0.0	0.0					
筹资活动产生的现金流	(266.6)	(513.8)	(659.6)	(723.3)					
总现金流	(185.8)	(233.6)	(64.1)	510.2					

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

胡玲玲

lingling.hu@ghsl.cn

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Prices in this report are as of the close of March 25 unless otherwise specified.

The author would like to thank Stephy Xu for her contribution to this report.

Exhibit 1: We apply global peers' av. 2016E P/E to 2020E earnings to value Luxshare and then discount back to 2016E Global comp sheet

Company name	Ticker	Rating	Market cap (\$ mn)	P/E (X)			EV/EBITDA (X)			P/B (X)			ROE			EPS Growth
				15E	16E	17E	15E	16E	17E	15E	16E	17E	15E	16E	17E	2017E
GoerTek Inc.	002241.SZ	Buy	6,115	31.9	22.1	17.8	21.2	13.8	11.6	4.2	3.6	3.1	14%	18%	19%	25%
AAC Technologies	2018.HK	Neutral	9,036	18.3	13.4	11.1	11.9	10.6	8.4	5.2	4.1	3.3	31%	34%	33%	20%
Knowles Corp	KN.US	N.C	1,125	23.6	15.1	N/A	9.5	9.3	N/A	NA	NA	NA	N/A	6%	N/A	N/A
Ushio Inc	6925.JP	N.C	1,858	20.2	14.8	14.8	9.9	7.7	7.0	0.9	0.9	0.8	5%	6%	6%	0%
Himax Technologies Inc	HIMX.US	N.C	1,748	64.2	31.0	23.5	41.5	21.7	14.6	4.1	3.7	3.4	6%	10%	14%	32%
Global peer average				31.6	18.6	16.5	18.2	12.3	10.0	3.4	2.9	2.5	14%	14%	17%	18%
Luxshare	002475.SZ	Buy*	5,785	35.0	25.1	18.0	24.8	17.8	13.1	6.8	5.5	4.3	20%	23%	25%	40%
Hirose Electric	6806.T	Neutral	4,008	20.8	21.3	20.3	8.8	6.4	5.8	1.5	1.5	1.4	7%	7%	7%	5%
Amphenol Corp.	APH	Neutral	18,031	23.5	21.9	19.7	14.2	14.1	12.8	5.5	5.3	5.2	25%	25%	27%	10%
TE Connectivity Ltd.	TEL	Buy	23,774	16.7	15.4	13.8	10.5	9.5	8.5	2.7	2.8	2.5	16%	17%	19%	6%
Global peer average				20.4	19.5	18.0	11.2	10.0	9.0	3.2	3.2	3.1	16%	16%	18%	7%
Shenzhen O-Film Tech Co. Ltd.	002456.SZ	Sell	3,888	52.8	28.4	22.8	25.4	17.6	15.2	4.1	3.6	3.2	8%	14%	15%	24%
General Interface Solution Hol	6456.TW	N.C	1,026	14.5	11.2	9.2	7.0	5.1	4.3	3.0	2.4	2.1	25%	25%	25%	21%
Samsung Electro-Mechanics	009150.KS	Neutral	3,627	n.a	16.5	16.9	5.7	5.3	5.0	1.0	0.9	0.9	0%	6%	5%	(2%)
LG Innotek Co Ltd	011070.KS	N.C	1,594	14.8	13.1	9.3	3.5	3.7	3.4	1.0	1.0	0.9	7%	8%	10%	41%
Denso	6902.T	Neutral	32,315	13.8	13.5	12.7	7.0	4.9	4.4	1.1	1.0	1.0	8%	7%	7%	6%
Autoliv Inc.	ALV	Neutral	10,048	21.9	17.6	15.4	10.0	8.5	7.7	2.9	2.7	2.6	13%	16%	17%	12%
Nidec	6594.T	Buy*	21,098	25.1	18.7	15.2	13.3	8.5	6.8	3.0	2.7	2.4	13%	15%	16%	23%
Visteon Corp	VC.US	N.C	3,101	31.9	22.7	18.2	3.0	2.6	2.4	1.2	24.2	11.0	6%	118%	(17%)	24%
Global peer average				20.3	16.2	13.8	7.1	5.5	4.9	1.9	5.0	3.0	10%	28%	9%	18%
Sunny Optical Technology Group	2382.HK	Neutral	2,968	25.0	19.7	16.3	12.2	14.4	11.7	5.3	4.4	3.7	22%	24%	24%	20%
Largan Precision	3008.TW	Buy*	10,098	13.7	11.9	8.6	9.7	7.8	5.2	5.2	4.0	3.0	44%	38%	40%	39%
Samsung Electro-Mechanics	009150.KS	Neutral	3,627	n.a	16.5	16.9	5.7	5.3	5.0	1.0	0.9	0.9	0%	6%	5%	(2%)
LG Innotek Co Ltd	011070.KS	N.C	1,594	14.8	13.1	N/A	3.5	3.7	N/A	1.0	1.0	0.9	7%	8%	N/A	N/A
Denso	6902.T	Neutral	32,315	13.8	13.5	12.7	7.0	4.9	4.4	1.1	1.0	1.0	8%	7%	7%	6%
Autoliv Inc.	ALV	Neutral	10,048	21.9	17.6	15.4	10.0	8.5	7.7	2.9	2.7	2.6	13%	16%	17%	12%
Nidec	6594.T	Buy*	21,098	25.1	18.7	15.2	13.3	8.5	6.8	3.0	2.7	2.4	13%	15%	16%	23%
Visteon Corp	VC.US	N.C	3,101	31.9	22.7	18.2	3.0	2.6	2.4	1.2	24.2	11.0	6%	118%	(17%)	24%
Global peer average				20.2	16.3	14.5	7.5	5.9	5.3	2.2	5.2	3.1	13%	30%	11%	17%

Note: N.C stands for Not Covered. For Non-covered companies, estimates are from Bloomberg consensus.

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

Note: * denotes stock is on our Regional Conviction List

Overview: Poised to gain market share in a fragmented market

We initiate on Luxshare with a CL-Buy and a 12-month target price of Rmb39.7, implying 36% upside potential. Luxshare is the largest connector manufacturer in China, but with less than 2% market share globally. We expect the company to triple its global market share by 2020E and achieve 23% revenue CAGR by 2020E. Luxshare is also categorized as one of the 'Leaders', which are the long-term winners identified by GS SUSTAIN framework, with first quartile CROCI (28% in 2016E). For more details of Luxshare's position within our GS SUSTAIN framework, please see page 28 of *Positioning for the upstream upside: Buy Luxshare (CL) and GoerTek*, published April 1. Our EPS estimates are 2% and 6% above consensus in 2016E and 2017E, possibly due to higher margin assumptions.

Market share gain in a fragmented market

We believe the connector sector is the most promising component vertical for Chinese players to expand their market shares given its fragmented market structure, limited technology migration and easy sourcing of raw materials. Luxshare expanded its market share 10 fold from 2008 to 2014 through organic growth and acquisitions. We expect the company to further triple its share in the next half-decade driven by demand from Apple and Chinese smartphones customers for lightning, antenna and Type-C connectors, as well as telecom business.

Margin expansion; solid ROE and CROCI

Luxshare increased its GPM from 19% to 23% while delivering 64% revenue growth, from 2010 to 2014, catching up with other global players. At the same time, its ROE rose from 12% to 18%, suggesting disciplined and effective R&D and capex spending. We forecast another 2ppt margin expansion by 2020E driven by further scale up and product mix improvement on integrated solutions, antenna and Type-C connectors.

Undemanding valuation at historical trough

Luxshare shares are currently trading at 25X NTM P/E, slightly above its global peers at 20X but we still see upside given its superior earnings outlook (40% EPS growth in 2017E vs. peer average of 7%). Its current P/E is also one standard deviation below its historical average of 30X and near its historical trough level. We expect market share gain and margin expansion to drive a re-rating of Luxshare shares.

Connector most attractive segment for companies to gain share

Global connector market: Big but fragmented

We believe connectors are the most attractive segment for Chinese component companies to gain market share based on our framework (Exhibit 2). For details of our framework, please see *Positioning for the upstream upside: Buy Luxshare (CL) and GoerTek* published April 1.

- Firstly, the market is very fragmented. The top seven players take 50% of global share while the other half is shared by hundreds of companies (Exhibit 5). Luxshare has less than 2% of the pie, but outgrew the industry pace from 2008 to 2014 (50% CAGR vs. market at 5%) and its market share increased by 10-fold during the period (Exhibit 6). We expect Luxshare will continue to gain market share through new customers or new products.
- Secondly, the technology migration for connectors is relatively moderate compared with other components. For instance, USB 2.0 and 3.0 specification was introduced in 2000 and 2008, respectively. Both are still in wide adoption in electronic products. Apple uses the same lightning for the past four generations of iPhones.
- Thirdly, raw material sourcing is not a bottleneck like for many other components as Luxshare supplies some of the raw material internally such as plastics and metal-ware.

The global connector market reached US\$55bn in 2014, growing at a CAGR of 5% over 2004-2014 (Exhibit 3). According to Bishop, the global connector market will grow at low single-digits over the next few years. Mobile devices, communication infrastructure and the automotives segment will see stronger-than-industry growth at 8-9%, driven by more complicated content in smartphone, explosive data growth and increasing use of hybrid/EV cars (Exhibit 4), according to Bishop. Luxshare is exposed to these verticals and focuses on mobile and communication.

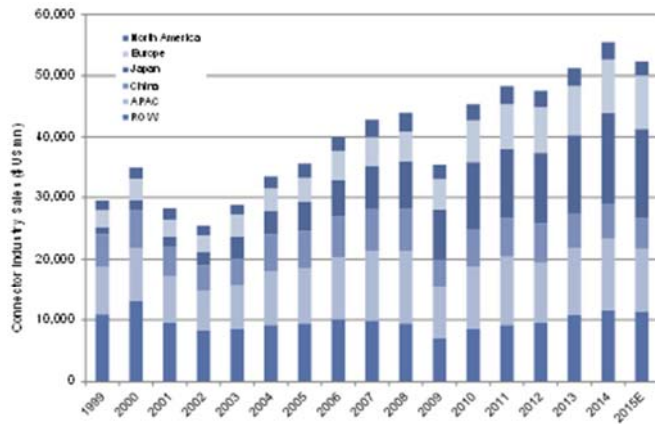
Exhibit 2: We believe connector is the most attractive segment for Chinese component companies to gain share
Framework in assessing the attractiveness of smartphone components

Major components	Market concentration	Untapped market share	Technology migration	R&D intensity	Capex intensity	Supplier risk	Attractiveness Average score
	1 (concentrated) to 5 (fragmented)	1 (low) to 5 (high)	1 (acceleration) to 5 (commoditization)	1 (low) to 5 (high)	1 (low) to 5 (high)	1 (concentrated) to 5 (diversified)	
Connector	4	5	3	3	3	5	3.8
Lens	3	5	2	3	3	4	3.3
FPCB	3	5	5	1	1	5	3.3
Acoustic	2	1	4	4	4	5	3.3
Display	2	5	2	1	5	3	3.0
Camera module	4	3	1	2	1	5	2.7
Touch panel	3	3	2	1	4	3	2.7
Cover Glass	1	5	3	2	3	1	2.5
Capacitor (MLCC)	1	5	1	5	1	1	2.3

Note: Market concentration - market share of top 3 players (1 above 80% to 5 below 20%); Untapped market share – current market share by non-Chinese companies (1 below 20% to 5 above 80%); Technology migration – the speed of technology upgrade and emerge of new technology (1: the pace is accelerating; 5: technology is getting commoditized with little change); R&D intensity - R&D as % of revenue (1 below 3% to 5 above 6%); Capex intensity – Capex as % of revenue (1 below 10% to 5 above 30%); Supplier risk - 1: majority of raw material dominated by few oversea suppliers with strong bargain power; 5: multiple suppliers with little pricing bargain power or self-supply for majority raw material

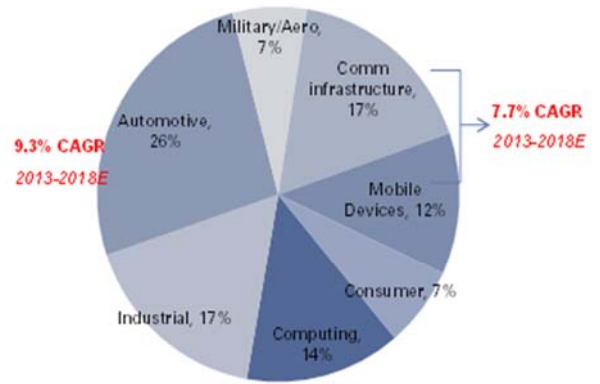
Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 3: Global connector industry grew at 3% CAGR in 2012-2015E and will likely remain at single-digit growth
Connector market size and yoy growth



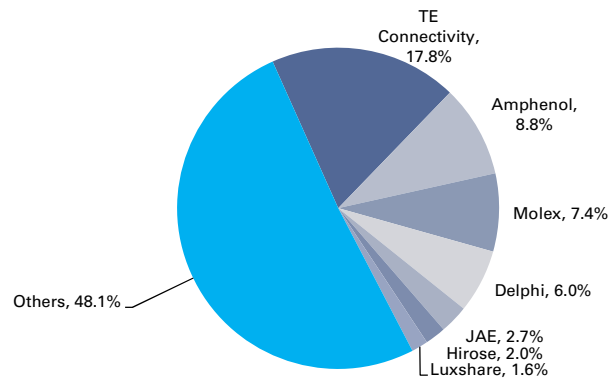
Source: Bishop, Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 4: Automotives and Telecom/Datacom are the key growth drivers
Connector market breakdown and growth CAGR in 2013-18E



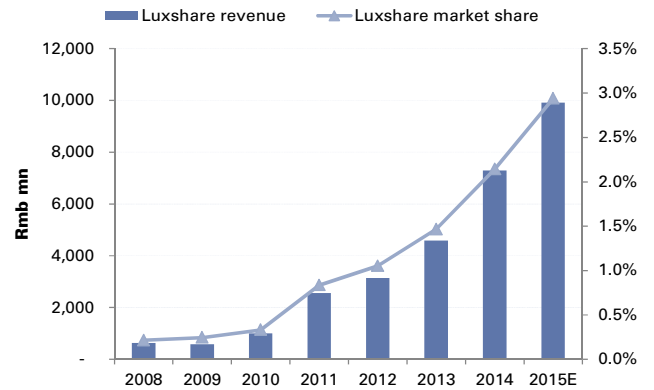
Source: Bishop, Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 5: The connector market is very fragmented with Luxshare holding less than 2% global market share
Global connector market share (2014)



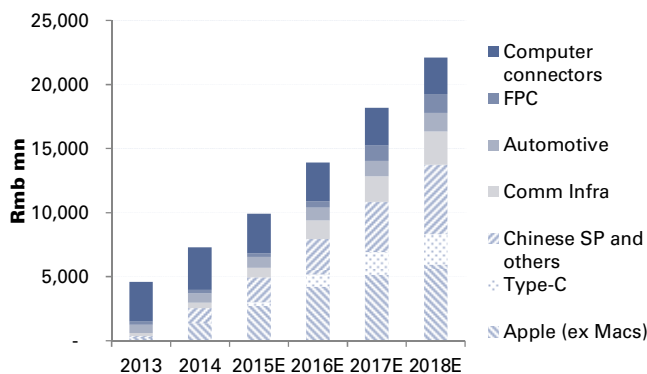
Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 6: Luxshare has been gaining market share steadily and we expect the trend to continue
Luxshare revenue and market share



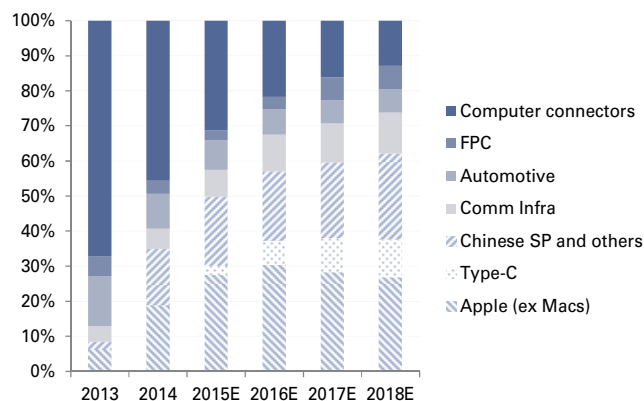
Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research

Exhibit 7: We expect Apple, Chinese smartphones and Type-C to drive growth
Luxshare revenue forecast



Source: Company data, Gao Hua Securities Research

Exhibit 8: We estimate non-PC business to contribute 87% of its revenue in 2018E vs. 69% in 2015
Luxshare revenue mix



Source: Company data, Gao Hua Securities Research

Superior technology; core supplier to Apple and targeting more

Luxshare successfully penetrated the Apple supply chain in 2011 and has established itself as a core supplier with proven technology, capacity and a quick response to requirements. It provides multiple components to Apple across various product platforms – Macs, iPhone, iPad and Watch (Exhibit 10).

- It first entered the iPad supply chain through the acquisition of Kunshan Lanto in 2011.
- Leveraging Lanto’s supplier qualification, Luxshare worked with Apple on various projects with increasing R&D spending. It then successfully designed in Apple as the Macbook power cable and iPhone Lightning cable (the charger cable used for iPhone/iPad since the iPhone 5 launch in 2012) supplier since 2H13.
- In 2H14, Luxshare ramped up its share in Lightning cable to 20%, and also became the sole wireless charging cable supplier for Apple’s first wearable product, the Apple Watch. We believe this demonstrates Luxshare’s capability and potential to become a full range supplier.

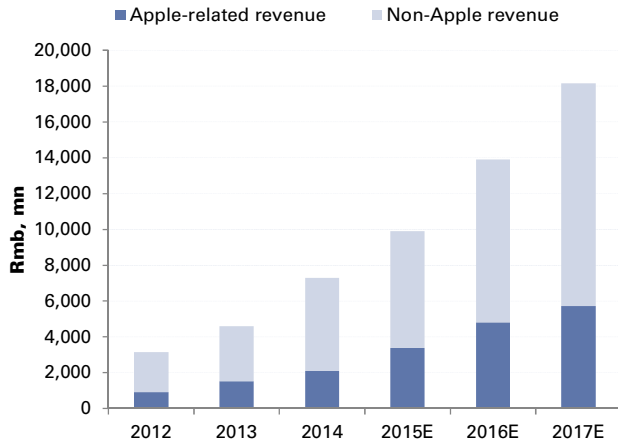
Following Apple’s product upgrades, Luxshare has been closely involved in Apple’s product/component design process. We estimate that Apple contributes approximately 33% of Luxshare’s revenue in 2015. Going forward, we expect Apple to continue to be a strong growth driver for Luxshare.

- We forecast Luxshare to further grow its share in Lightning to above 30% from 20% in 2015 and to benefit from the increasing content in Apple’s accessories such as converters between different interfaces (such as Lightning to 3.5mm earphone plug etc);
- We expect Luxshare to gradually tap into other components including antenna by leveraging its capability in providing integrated solution with expertise in acoustics and FPC.

Overall, we estimate Apple revenue of Rmb4.8bn, Rmb5.7bn and Rmb6.5bn in 2016E to 2018E, respectively, accounting for 35%, 32% and 29% of its revenue (Exhibit 9).

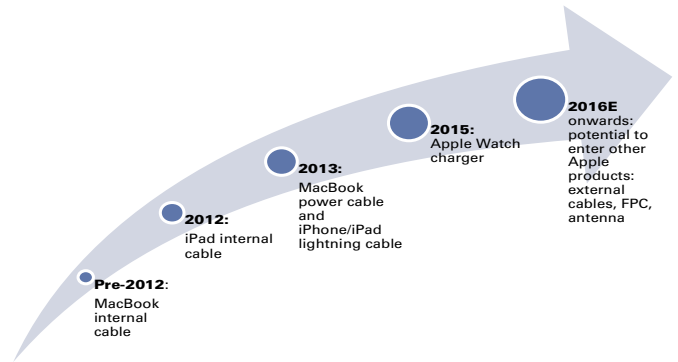
Exhibit 9: Apple products contribute 34% of Luxshare's revenue in 2015E

Luxshare Apple-related and non-Apple revenue



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

Exhibit 10: Luxshare has become a proven connector supplier to Apple over the years and there is still potential market for Luxshare to tap into
Luxshare's journey with Apple



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

Type-C to connect everything, the next big trend

USB Type-C is an upgrade for USB 3.0 Type A and B, which are the current mainstream interfaces used in smartphones, notebooks and TVs. It beats USB 3.0 in terms of fast charging, form factor, high-speed data transmission and integration (Exhibit 11).

Furthermore, the European Union plans to enforce a unified charging interface for all smartphones from 2017 for the purpose of environmental protection. Type-C will be able to meet the requirement, in our view.

Attracted by the merits of Type-C – being thinner and faster, many Chinese smartphone OEMs such as LeShi, Xiaomi have adopted Type-C in their smartphones (Exhibit 12). Besides smartphones, increased number of notebooks also switched to Type-C. For instance, the new MacBook by Apple launched in 2015 and the MateBook, Huawei's first notebook launched in MWC in 2016. We expect stronger ramp up for Type-C in 2016 as it is approaching the timeline set by the European Union. Luxshare currently has over 50% market share among these Chinese brands thanks to its technology lead. We expect Type C to contribute 10% of its revenue in 2017E (Exhibit 13).

Exhibit 11: Type-C has plenty of advanced features vs. the current mainstream connector USB 3.0

USB 3.0 vs. Type-C features comparison

	USB 3.0	Type-C
Form factor	Various	Unified size (8.3mm * 2.5mm)
Bandwidth	5Gps	10Gps
Data transmission speed	500MB/s	1000MB/s
Reversible/flipable	No	Yes
Durability	1,500-10,000 times	10,000+ times
Mechanical specs	5V, 500-900mA	5V/12V/20V, 500mA-5A, 100W
EMI and RFI mitigation	Low	Improved EMI and RFI mitigation features
Integration	Low	Data, Power, Audio/Video input/output

Source: Company data, USB.org

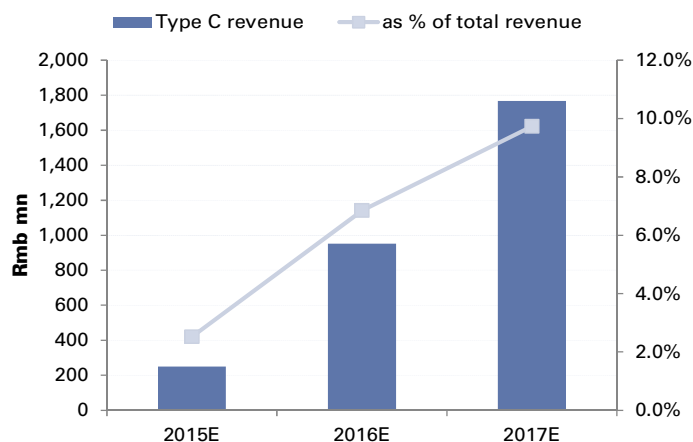
Exhibit 12: More smartphones are adopting Type-C interface

Selected smartphone with Type-C interface

Model	Launching Time	Pricing (USD)
LeTV Le 1	Apr-15	\$240
LeTV Le 1 Pro	May-15	\$400
LeTV Le Max	Jun-15	\$500
OnePlus 2	Jul-15	\$590
Xiaomi 4C	Sep-15	\$300
Nexus 5X	Oct-15	\$488

Source: JD.com

Exhibit 13: We expect Type-C to contribute 10% of Luxshare revenue in 2017E
Luxshare Type-C revenue and contribution



Source: Gao Hua Securities Research

Narrowing margin and ROE gap with global peers

With above 80% revenue coming from consumer electronics products, Luxshare is lagging behind global peers in gross margin, who are mostly exposed to the auto, industrial, military and telecom segments with higher margins (Exhibit 14). However, by strengthening its market positioning at high-end customers and products, it managed to narrow the margin and ROE gap. We forecast another 2ppt margin expansion by 2020E on the back of mix improvement and providing integrated solutions (Exhibit 15).

Exhibit 14: Luxshare is narrowing its gross profit margin and ROE gap with global peers

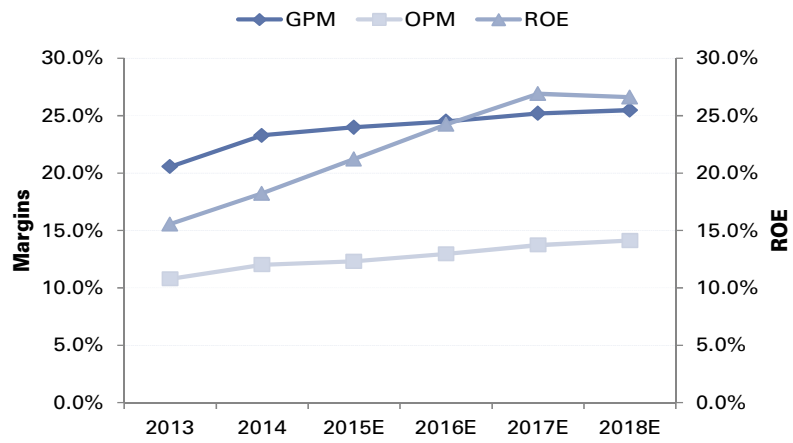
Luxshare peer comparison

Revenue (US\$ mn)	2010	2011	2012	2013	2014	GPM (% CY)	2010	2011	2012	2013	2014
Luxshare	150	404	500	750	1,186	Luxshare	18.8%	22.1%	21.2%	20.6%	23.3%
TE Connectivity	11,681	13,778	13,282	13,280	13,912	TE Connectivity	31.2%	31.0%	30.5%	32.6%	33.7%
Amphenol	3,554	3,940	4,292	4,615	5,346	Amphenol	32.6%	31.6%	31.3%	31.4%	31.7%
Hirose	1,135	1,244	1,178	1,214	1,168	Hirose	42.2%	40.9%	42.8%	43.6%	45.1%
SG&A (% excl. R&D)	2010	2011	2012	2013	2014	R&D (% CY)	2010	2011	2012	2013	2014
Luxshare	-1.6%	3.0%	5.0%	5.3%	5.7%	Luxshare	1.6%	2.4%	3.7%	4.4%	5.5%
TE Connectivity	12.8%	12.5%	12.7%	13.4%	13.5%	TE Connectivity	4.8%	5.1%	5.2%	5.1%	4.9%
Amphenol	10.7%	10.1%	9.8%	9.6%	9.9%	Amphenol	2.2%	2.3%	2.2%	2.2%	2.1%
Hirose	13.2%	14.4%	15.7%	13.9%	14.5%	Hirose	5.6%	5.3%	5.0%	4.6%	4.5%
Reported OPM (% CY)	2010	2011	2012	2013	2014	ROE (% CY)	2010	2011	2012	2013	2014
Luxshare	14.2%	16.7%	12.5%	10.8%	12.0%	Luxshare	11.8%	14.8%	13.5%	15.6%	18.2%
TE Connectivity	12.4%	12.2%	11.4%	11.7%	14.7%	TE Connectivity	15.7%	17.1%	14.4%	15.6%	20.5%
Amphenol	19.7%	19.1%	19.3%	19.4%	19.4%	Amphenol	24.4%	23.3%	24.1%	24.0%	24.6%
Hirose	23.4%	21.2%	22.0%	25.2%	26.2%	Hirose	5.0%	5.3%	5.5%	7.9%	8.3%

Source: Company data

Exhibit 15: Luxshare has been improving its margins and ROE; we expect the trend to continue

Luxshare GPM OPM and ROE forecast



Source: Company data, Gao Hua Securities Research

Long-term discounted P/E valuation to capture long-term growth

We value our China technology component companies using long-term discounted P/E in order to capture their long-term growth potential. For Luxshare, we apply the global peers' average 2016E P/E of 20X to 2020E EPS and discount back to 2016E using a cost of equity of 8.4%, which is the average cost of equity of our China tech hardware component coverage. Our 12-month target price of Rmb39.7 implies 36% upside potential. Luxshare is currently trading at 25X NTM P/E, one standard deviation below its historical average of 30X and near historical trough level. We expect the continued market share gain and margin expansion to drive a re-rating of its shares.

Exhibit 16: We apply its global peers' average 2016E P/E of 20X as the exit multiple in 2020E and discount back to 2016E at a 8.4% cost of equity

Comp sheet

Company name	Ticker	Market cap (\$ mn)	P/E (X)			EV/EBITDA (X)			P/B (X)			ROE			EPS Growth
			15E	16E	17E	15E	16E	17E	15E	16E	17E	15E	16E	17E	2017E
Luxshare	002475.SZ	5,785	35.0	25.1	18.0	24.8	17.8	13.1	6.8	5.5	4.3	20%	23%	25%	40%
Hirose Electric	6806.T	4,008	20.8	21.3	20.3	8.8	6.4	5.8	1.5	1.5	1.4	7%	7%	7%	5%
Amphenol Corp.	APH	18,031	23.5	21.9	19.7	14.2	14.1	12.8	5.5	5.3	5.2	25%	25%	27%	10%
TE Connectivity Ltd.	TEL	23,774	16.7	15.4	13.8	10.5	9.5	8.5	2.7	2.8	2.5	16%	17%	19%	6%
Global peer average			20.4	19.5	18.0	11.2	10.0	9.0	3.2	3.2	3.1	16%	16%	18%	7%

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

Exhibit 17: Luxshare is our top pick with 32% upside potential

TP derivation

Ticker	Company	Rating	Current Price (Pricing currency)	12-m TP (Pricing currency)	Potential up/down side	2016E		2020E		Average COE
						EPS (Rmb)	Current P/E	EPS (Rmb)	Exit P/E	
002475.SZ	Luxshare	Buy*	30.2	39.7	32%	1.20	25.1	2.81	19.5	8.4%
002241.SZ	Goertek	Buy	26.1	30.0	15%	1.18	22.1	2.23	18.6	8.4%
2382.HK	Sunny	Neutral	21.9	22.6	3%	0.94	20.3	1.67	16.3	8.4%
002456.SZ	O-Film	Sell	24.6	18.4	-25%	0.87	28.4	1.57	16.2	8.4%

*On Conviction List.

Note: Priced as of market close on Mar 27, 2016.

Source: Gao Hua Securities Research, Bloomberg

Exhibit 18: 8.4% is the average cost of equity of our China component coverage

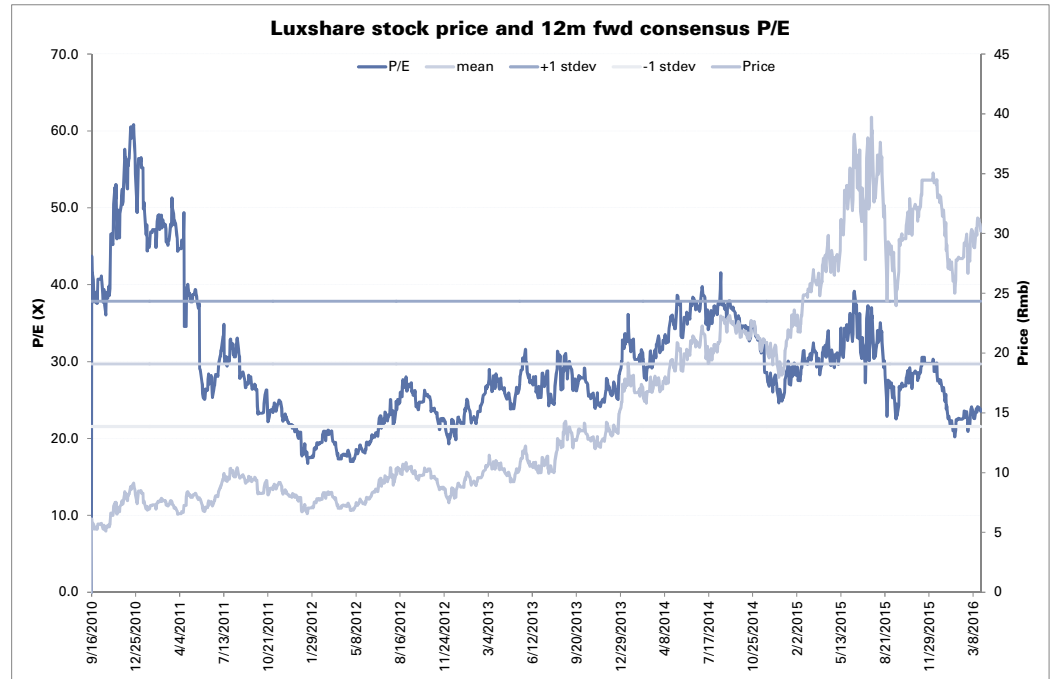
Cost of equity calculation

Ticker	Company	Rating	Risk free rate (%)	Equity risk premium	Beta	COE
002475.SZ	Luxshare	Buy*	3.0%	6.0%	0.79	7.7%
002241.SZ	Goertek	Buy	3.0%	6.0%	0.93	8.6%
2382.HK	Sunny	Neutral	2.5%	5.5%	0.95	7.7%
002456.SZ	O-Film	Sell	3.0%	6.0%	1.10	9.6%
					Average	8.4%

Note: Beta is from Bloomberg

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

Exhibit 19: We consider Luxshare undervalued given it is at historical trough levels although we expect it to continue gaining market share and expand margins
Luxshare 12m fwd P/E



Source: Datastream

Key downside risks to our investment thesis

- Weaker-than-expected PC market: We forecast Luxshare still has 30% revenue exposure to the legacy PC market in 2015E. Although the company has been taking market share in this segment and optimizing product mix through tapping into high-end products by high-end brands, any higher-than-expected decline in the overall PC market will weigh on its revenue growth;
- Slower-than-expected ramp-up in new business: Although Luxshare has a solid track record in delivering quality products to customers, customers' product launch schedule or design change might result in delay of Luxshare's product ramp up.

Appendix: Company profile and shareholding structure

Luxshare, founded in 2004 in Shenzhen, was listed on Shenzhen Stock Exchange in August 2010. Its products include cable assembly, connector, power cord, antenna, raw cable/MCC/FFC/FPC, precision metal/plastic components and acoustics. 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, Microsoft, Huawei, other China smartphone makers, Sony, Nintendo, and some global auto component suppliers.

Luxshare had made penetration into Apple's supply chain as its focus since its IPO. It first entered the iPad supply chain through the acquisition of Kunshan Lanto in 2011 and became a MacBook power cable and iPhone Lightning cable supplier from 2H13. From 2H14, Luxshare became the sole wireless charging cable supplier for Apple watch. We expect Apple-related revenue to make up 34% of Luxshare's total revenue in 2015.

Luxshare has a record of expanding into new business areas through M&A. In addition to its acquisition of Lanto, Luxshare acquired: Shenzhen Science Expert Industrial (also known as Keertong) to enter the telecom equipment connector business and break into Huawei's supply chain in 2012, Zhuhai All-winner to enter the FPC business in Sep 2012, Fujian JK Wiring systems in 2012 and SuK Kunststofftechnik GmbH in Germany in 2013 to expand auto connector business, Toyoshima Suzhou to enter the casing business in 2013. In 2015, Luxshare also announced a series of acquisitions: it increased its shareholding in Taiwan Speed Tech to a target of 31.7% to further enhance its Type-C connector product line and benefit from the connector upgrade cycle; acquired 70% of Huzhou Jiuding Electronic Co., a semiconductor, component material supplier which Luxshare previously owned 30% and 25.4% of Taiwan Merry Electronics Co. to enter the acoustic market.

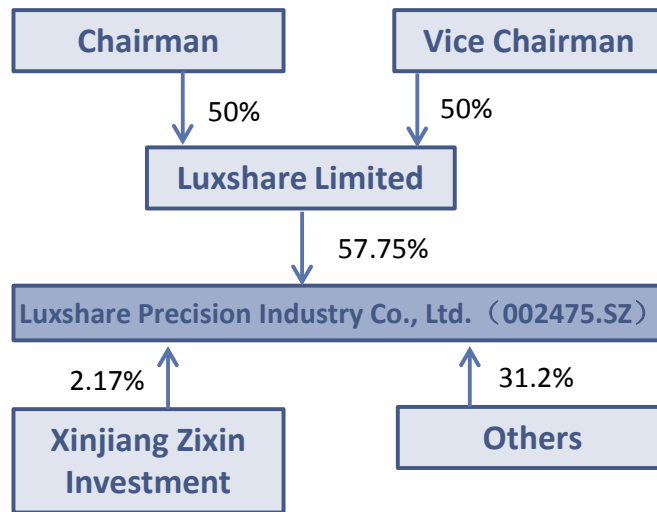
Exhibit 20: Luxshare has a solid track record in expanding its addressable market through acquisitions

The subsidiaries highlighted in grey are consolidated through acquisition

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%
Taiwan Speedtech	Taiwan	Taoyuan	Telecom; PC connector and Type-C	25%

Source: Company data

Exhibit 21: Luxshare shareholding structure



Source: Company data, Wind

信息披露附录

申明

本人，胡玲玲，在此申明，本报告所表述的所有观点准确反映了本人对上述公司或其证券的个人看法。此外，本人薪金的任何部分不曾与，不与，也将不会与本报告中的具体推荐意见或观点直接或间接相关。

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每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化，但标准方法如下：

增长是下一年预测与当前年度预测的综合比较，如每股盈利、EBITDA 和收入等。**回报**是各项资本回报指标一年预测的加总，如 CROCI、平均运用资本回报率及净资产回报率。**估值倍数**根据一年预期估值比率综合计算，如市盈率、股息收益率、EV/FCF、EV/EBITDA、EV/DACF、市净率。**波动性**根据 12 个月的历史波动性计算并经股息调整。

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没有对下述公司的具体信息披露：立讯精密 (Rmb29.25)

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