

Luxshare (002475 CH)

Connecting to multiple growth engines

SUMMARY. We have met with Luxshare's management recently to discuss the Company outlook for FY19/20E and potential opportunities for 5G era. Overall, we are optimistic on Luxshare's growth strategy backed by 1) rapid product expansion and solid execution via strategic M&A/alliances (acoustics/haptics, wireless charging, optics), 2) "component-module-system" business model (Airpods, Apple Watch, smart speaker, BTS antenna), and 3) accelerated penetration into Apple supply chain (Airpod, acoustics/haptics) in FY19-20E.

- Consumer electronics with robust growth momentum.** Evolving from pure component supplier to module/system providers, Luxshare now offers a diversified product portfolio across various segments, ranging from traditional components (e.g. cable, connector) to more comprehensive and integrated modules (e.g. LCP antenna, LRA, wireless charging Rx/Tx). Meanwhile, Luxshare strives to broaden penetration into different Apple products (from Macbook/iPad, iPhone to wearables), and expand share allocation in each product category (e.g. acoustics, haptics, Airpods), at the expense of AAC (acoustics/haptics) and Goertek (acoustics/Airpods). We expect near-term growth drivers will come from wearables (Airpods, Apple Watch) and haptics/acoustics in 2019-20E.
- Capturing 5G opportunities in 2H19E.** Mgmt. believed that Luxshare is well-positioned to capture growing 5G opportunities with an established product offerings, including 1) high-speed copper and optical cables/connectors for 5G network, 2) massive MIMO-compatible RF/antenna on small-cell base stations, and 3) LCP antenna modules in upcoming iPhones. Additionally, in longer term, Luxshare is eyeing on fixed wireless unleashing a wider scope of IoT products and routers.
- Valuation/Key risks.** The stock now trades at 23.6x/18.1x FY19/20E P/E, compared to 44%/31% FY19/20E EPS growth. We believe there is further earnings upside for FY19-20E, on back of 1) strong growth momentum in consumer electronics, 2) communication interconnects benefiting from 5G network construction, and 3) healthy organic growth of automotive interconnects and potential opportunities with NEV.

Earnings Summary

(YE 31 Dec)	FY14A	FY15A	FY16A	FY17A	FY18A
Revenue (RMB mn)	7,296	10,139	13,763	22,826	35,850
YoY growth (%)		39	36	66	57
Net income (RMB mn)	630	1,079	1,157	1,691	2,723
EPS (RMB)	0.80	0.86	0.55	0.53	0.66
YoY growth (%)		7	(36)	(2)	24
P/E (x)	28.1	26.2	41.2	42.1	33.9
P/B (x)	3.8	4.8	3.9	5.1	5.5
Yield (%)	0.4	0.4	0.4	0.3	0.2
ROE (%)	13	18	10	12	16
Net gearing (%)	50	62	35	64	96

Source: Company data, CMBIS

NOT RATED

Current Price

RMB22.45

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Stock Data

Mkt Cap (RMB mn)	92,373
Avg 3 mths t/o (RMB mn)	974.49
52w High/Low (RMB)	27.33/12.81
Total Issued Shares (mn)	4,114.6

Source: Bloomberg

Shareholding Structure

Luxshare Ltd	45.11%
Orient Securities	3.48%
Boyuan Hongcheng	2.86%

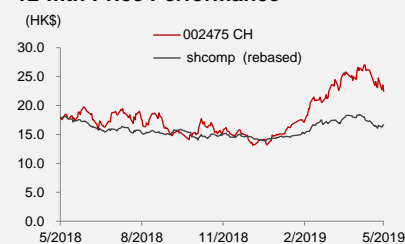
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-4.0%	3.9%
3-mth	53.4%	39.2%
6-mth	28.0%	39.1%

Source: Bloomberg

12-mth Price Performance

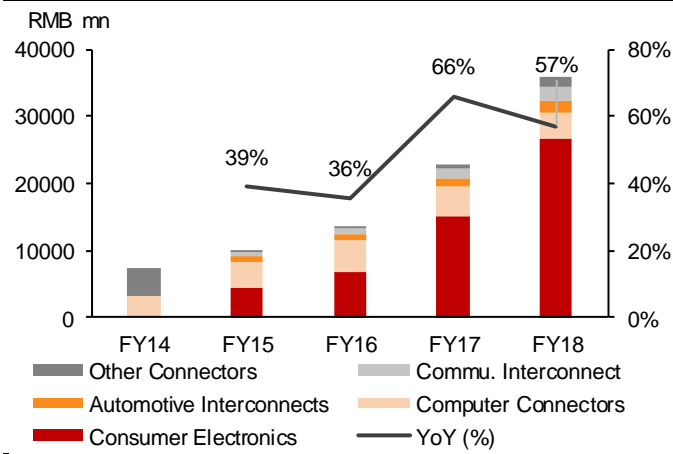


Source: Bloomberg

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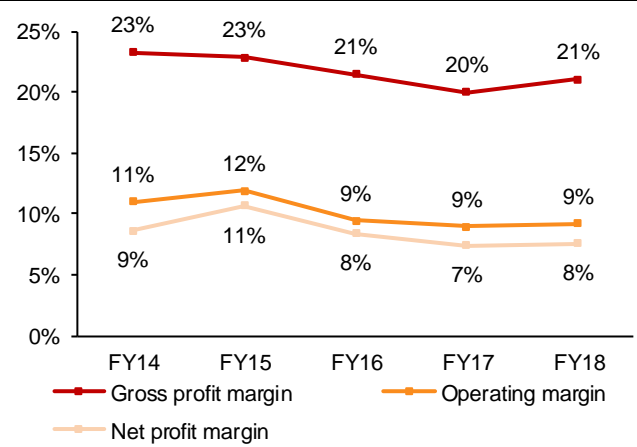
Focus Charts

Figure 1: Consumer electronics with rapid growth during FY14-18



Source: Company data, CMBIS

Figure 2: Luxshare's margin remained stable during FY14-18



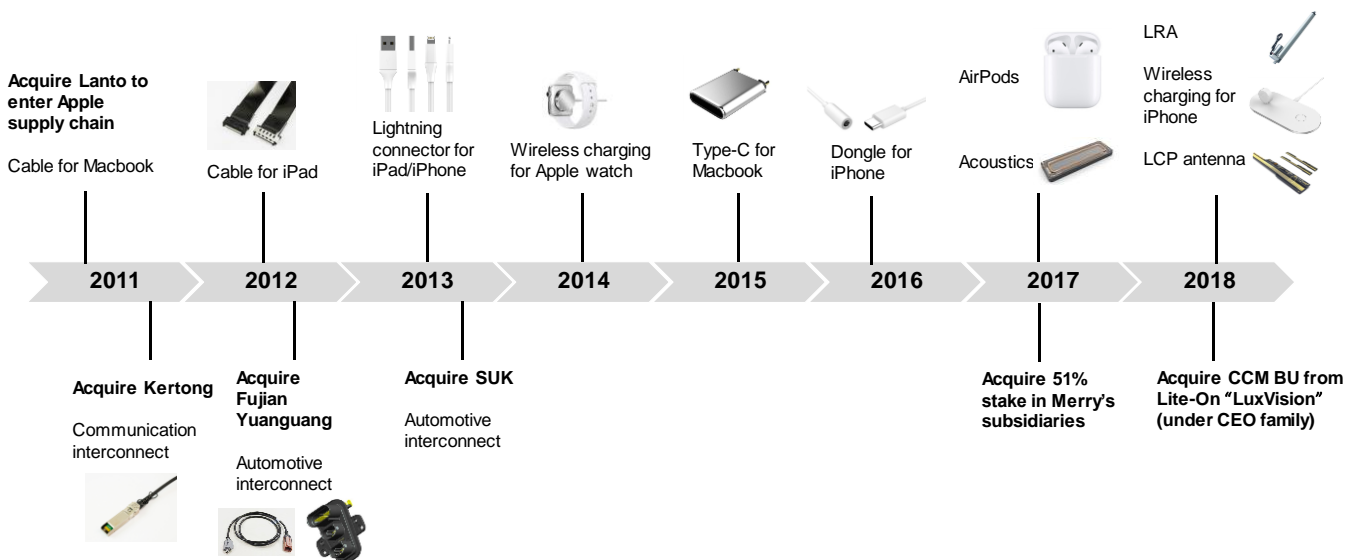
Source: Company data, CMBIS

Figure 3: Luxshare's revenue breakdown during FY15-18

RMB mn	FY15	1H16	2H16	FY16	1H17	2H17	FY17	1H18	2H18	FY18
Computer Connectors	3,890	1,803	2,808	4,612	1,633	2,715	4,348	1,644	2,089	3,733
...YoY	17%	6%	28%	19%	-9%	-3%	-6%	1%	-23%	-14%
Automotive Interconnect	842	321	582	904	414	717	1,131	728	1,000	1,728
...YoY	-	-	-	7%	29%	23%	25%	76%	40%	53%
Communication Interconnect	703	309	746	1,055	382	1,273	1,655	1,017	1,135	2,152
...YoY	-	-	-	50%	23%	71%	57%	166%	-11%	30%
Consumer Electronics	4,416	2,206	4,695	6,901	5,652	9,536	15,188	8,359	18,447	26,807
...YoY	-	-	-	56%	156%	103%	120%	48%	93%	76%
Other Connectors	289	112	179	291	206	298	504	277	1,154	1,431
...YoY	65%	-	-	1%	83%	67%	73%	35%	287%	184%
Total	10,139	4,752	9,010	13,763	8,287	14,539	22,826	12,026	23,824	35,850
...YoY	39%	7%	58%	36%	74%	61%	66%	45%	64%	57%

Source: Company data, CMBIS

Figure 4: Product expansion timeline



Source: Company data, CMBIS

Figure 5: Peers' valuation

Company	Ticker	Market Cap (US\$ mn)	Price (LC)	Avg Turnover (US\$ mn)	P/E (x)		P/B (x)		ROE (%)	
					FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
A-share components										
Luxshare	002475 CH	13,426	22.45	145.6	23.6	18.1	4.8	3.9	21.3	22.4
O-film	002456 CH	3,344	8.37	282.7	11.0	8.7	2.0	1.6	17.8	18.8
Sunway	300136 CH	3,376	24.22	221.2	17.0	13.1	4.6	3.4	28.8	27.4
BOE	000725 CH	17,144	3.42	741.7	28.3	19.4	1.3	1.2	4.5	6.3
Hans Laser	002008 CH	5,427	35.07	140.6	19.7	14.7	3.8	3.4	19.1	21.3
Lens Tech	300433 CH	4,075	7.19	58.9	14.8	12.0	1.5	1.4	10.8	11.8
Everwin	300115 CH	1,437	10.87	47.3	22.4	17.6	2.1	1.9	9.5	11.7
Goertek	002241 CH	4,075	8.64	93.8	20.8	16.8	1.7	1.6	8.2	9.4
Holitech	002217 CH	2,496	5.51	117.7	7.8	9.3	1.3	1.2	12.5	12.6
		Average			17.7	13.9	2.3	2.0	13.9	14.9
H-share components										
FIT Hon Teng	6088 HK	3,020	3.50	4.9	11.4	9.5	1.4	1.2	13.2	13.3
AAC Tech	2018 HK	6,897	44.65	90.1	15.5	13.2	2.3	2.1	15.5	16.2
Sunny Optical	2382 HK	11,885	85.05	99.0	22.8	17.7	6.6	5.1	32.8	32.5
FIH	2038 HK	570	0.69	8.6	4.8	4.3	0.6	0.6	13.6	14.2
Tongda	698 HK	3,709	12.92	20.2	10.5	9.3	1.4	1.2	13.8	14.1
BYDE	285 HK	499	1.19	3.3	4.8	4.9	0.4	0.4	5.8	8.1
Truly	732 HK	1,079	7.42	7.3	19.5	15.2	3.0	2.6	15.9	17.7
Q-tech	1478 HK	5,166	8.03	29.3	78.7	60.2	0.9	0.9	1.2	1.7
SMIC	981 HK	2,933	17.48	14.5	11.1	11.1	1.4	1.3	11.4	11.0
YOFC	6869 HK	423	4.14	1.1	10.7	8.8	1.2	1.1	12.5	13.3
O-NET	877 HK	468	4.41	0.2	9.4	8.0	2.9	2.4	32.6	32.6
Ju Teng	3336 HK	180	1.70	1.1	9.0	8.3	0.5	0.5	5.7	5.7
TK Group	2283 HK	3,020	3.50	4.9	11.4	9.5	1.4	1.2	13.2	13.3
Cowell	1415 HK	6,897	44.65	90.1	15.5	13.2	2.3	2.1	15.5	16.2
		Average			17.4	14.2	1.9	1.6	14.5	15.0

Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY14A	FY15A	FY16A	FY17A	FY18A
Revenue	7,296	10,139	13,763	22,826	35,850
Cost of sales	5,597	7,819	10,804	18,260	28,304
Gross profit	1,699	2,320	2,959	4,566	7,546
Selling exp	128	167	230	315	388
Admin exp (excl. R&D)	256	338	390	576	900
R&D exp	400	582	932	1,542	2,515
Finance costs	52	(36)	36	203	302
Other operating exp.	60	62	66	(123)	147
Operating profit	803	1,207	1,303	2,052	3,294
Other non-oper exp.	61	86	86	(14)	(12)
Pre-tax profit	864	1,293	1,389	2,039	3,282
Income tax expense	125	161	207	291	469
Minority interests	109	53	26	57	91
Net profit	630	1,079	1,157	1,691	2,723

Cash flow summary

YE 31 Dec (RMB mn)	FY14A	FY15A	FY16A	FY17A	FY18A
Net profit	739	1,132	1,182	1,748	2,813
Depreciation	211	307	467	781	1,212
Change in working capital	(719)	(970)	(444)	(2,407)	(1,273)
Others	90	18	105	48	390
Net cash from operating	321	487	1,310	169	3,142
Capex	983	1,046	1,563	3,527	5,156
Other	(2,753)	(2,278)	(5,364)	(6,123)	(10,084)
Net cash from investing	(1,769)	(1,231)	(3,801)	(2,596)	(4,928)
Share issuance	2,011	131	4,606	16	98
Dividend paid	102	138	215	316	390
Other	794	209	271	1,543	965
Net cash from financing	2,907	478	5,093	1,875	1,453
Net change in cash	1,458	(266)	2,601	(552)	(333)
Cash at beginning of the year	703	2,186	2,009	4,619	3,994
Exchange difference	24	90	8	(73)	149
Cash at the end of the year	2,186	2,009	4,619	3,994	3,810

Balance sheet

YE 31 Dec (RMB mn)	FY14A	FY15A	FY16A	FY17A	FY18A
Current assets	5,972	7,043	14,545	17,372	23,078
Cash & equivalents	2,242	2,042	4,637	4,008	3,820
Trade and other receivables	2,286	2,948	4,871	7,206	11,216
Inventories	1,161	1,509	2,122	3,474	4,735
Prepayment	35	63	69	124	93
Other current assets	248	482	2,847	2,560	3,215
Non-current assets	3,720	4,544	6,410	9,514	13,363
PPE	2,065	2,592	4,216	6,369	9,457
Deferred income tax	20	35	58	73	91
Other non-current assets	1,635	1,917	2,135	3,072	3,815
Total assets	9,692	11,587	20,955	26,886	36,441
Current liabilities	4,407	5,524	8,607	11,712	17,179
Deferred income	10	8	44	22	31
Trade and other payables	1,754	2,136	4,291	6,341	10,238
Tax payable	63	67	115	125	161
Other current liabilities	2,581	3,314	4,157	5,224	6,749
Non-current liabilities	320	184	217	1,249	2,588
Deferred income	10	18	96	161	212
Deferred tax liabilities	24	24	35	80	426
Other non-current liabilities	286	141	86	1,008	1,951
Total liabilities	4,727	5,708	8,825	12,961	19,767
Share capital	832	1,257	2,120	3,173	4,115
Reserves	3,760	4,270	9,132	9,765	11,383
Minority interest	372	351	878	987	1,177
Shareholders' equity	4,964	5,879	12,130	13,925	16,675
Total equity and liabilities	9,692	11,587	20,955	26,886	36,441

Key ratios

YE 31 Dec	FY14A	FY15A	FY16A	FY17A	FY18A
Sales mix (%)					
Computer connectors	45.6	38.4	33.5	19.0	10.4
Auto interconnect		8.3	6.6	5.0	4.8
Comm. interconnect		6.9	7.7	7.2	6.0
Consumer electronics		43.6	50.1	66.5	74.8
Other connectors	54.4	2.8	2.1	2.2	4.0
Growth (%)					
Revenue		39	36	66	57
Gross profit		37	28	54	65
Operating Income		50	8	57	60
Net profit		71	7	46	61
Profitability (%)					
Gross Margin	23	23	21	20	21
Operating Margin	11	12	9	9	9
Net margin	9	11	8	7	8
Balance sheet ratios					
Net debt/total equity (x)	0.5	0.6	0.3	0.6	1.0
Current ratio (x)	1.4	1.3	1.7	1.5	1.3
Receivable turnover days	94	104	97	94	94
Inventory turnover days	62	61	56	53	62
Payable turnover days	70	85	85	84	70
Returns (%)					
ROE	12.7	18.3	9.5	12.1	16.3
ROA	6.5	9.3	5.5	6.3	7.5

Source: Company data, CMBIS estimates

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