

Luxshare (002475 CH)

Acquisition of Pegatron's Kunshan plant to further boost iPhone assembly share gain

Based on filings of Pegatron (iPhone OEM) on 28 Dec, Luxshare is expected to invest RMB 2.1bn for 62.5% stake of Pegatron's iPhone assembly plant in Kunshan. After the deal close, Luxshare will become the 2nd largest iPhone assembler with 35%+ share after Foxconn, and Pegatron will target to reallocate resources and regional production capacity. Despite recent macro headwinds and iPhone's pressure from Huawei's comeback, we believe Luxshare is well-positioned for further share gain across Apple's iPhone/ Watch/AirPods/Vision Pro supply chain in FY24/25E. We are positive on Luxshare's synergy with recent acquisitions, fast-growing auto/comm. business and better operating efficiency in FY24/25E. The stock is trading at 22.2x/17.6x FY23/24E P/E (1-sd below 5-yr avg. P/E). Maintain BUY with the same TP of RMB46.96 (based on 24x FY24E P/E). Upcoming catalysts include Vision Pro ramp-up and auto tier-1 progress.

- Luxshare to acquire Pegatron's iPhone assembly plant in Kunshan, boosting iPhone assembly share.** Luxshare will invest RMB 2.1bn in the Kunshan plant for 62.5% stake as capital expansion, and Pegatron's stake in the facility will drop to 37.5%. After the expansion into iPhone assembly business since iPhone 14 Series, Luxshare has been gaining shares with order win of three iPhone 15 models in 2023, including premium 15 Pro. Foxconn, Pegatron and Luxshare are the three major iPhone assemblers with share allocation of 60%, 25% and 15%, based on our estimates. After the deal close, we believe Luxshare will surpass Pegatron to become the 2nd largest iPhone assembler after Foxconn.
- Accelerated share gain across Apple product lines and strong outlook in auto/comm segments.** Luxshare pre-announced FY23E net income growth at 17.5-22.5% YoY in 3Q23 earnings release, implying 31% YoY growth in 4Q23 (vs 15% in 3Q). We believe stronger earnings in 4Q23 was a result of Luxshare's share gain in top module/ smartphone OEM biz and higher share allocation of high-end models, and we are positive on further iPhone OEM business upside in FY24/25E post Kunshan plant acquisition. In addition, comm./auto tier-1 business are poised to deliver solid growth and better margins with order wins and product portfolio expansion.
- Attractive risk/reward; Reiterate BUY.** We are positive on Luxshare's share gain across Apple product lines and robust auto/comm. outlook, and market concerns on Huawei's comeback are overdone. The stock is trading at 22.2x/17.6x FY23/24E P/E, close to 1-SD below 5-year hist. avg. P/E. Reiterate BUY with the same TP of RMB46.96 (24x FY24E P/E).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	153,946	214,028	233,706	279,882	329,714
YoY growth (%)	66.4	39.0	9.2	19.8	17.8
Net profit (RMB mn)	7,070.5	9,163.1	10,989.6	13,898.7	17,283.0
EPS (Reported) (RMB)	1.00	1.29	1.55	1.96	2.43
YoY growth (%)	(2.8)	28.6	19.9	26.5	24.3
Consensus EPS (RMB)	N/A	N/A	1.60	2.04	2.51
P/E (x)	41.4	26.7	22.2	17.6	13.6
P/B (x)	6.4	4.2	2.4	2.2	1.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	18.4	17.5	10.9	12.3	14.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB46.96
 (Previous TP RMB46.96)
Up/Downside 36.3%
Current Price RMB34.45

China Technology

Alex NG
 (852) 3900 0881
 alexng@cmbi.com.hk

Claudia LIU
 claudialiu@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	235,720.0
Avg 3 mths t/o (RMB mn)	1,570.1
52w High/Low (RMB)	34.82/25.15
Total Issued Shares (mn)	7100.0

Source: FactSet

Shareholding Structure

Luxshare Ltd	38.3%
HKEX	7.4%

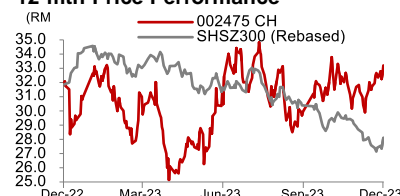
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	4.6%	10.3%
3-mth	11.3%	23.1%
6-mth	8.9%	25.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Valuation

Reiterate BUY with TP of RMB 46.96.

We maintain our 12m TP of RMB 46.96, which is based on the same 24x FY24E P/E. We believe this is justified as Luxshare continues to deliver resilient earnings growth, market share gain and product expansion to capture Apple and NEV opportunities in the next 3-5 years.

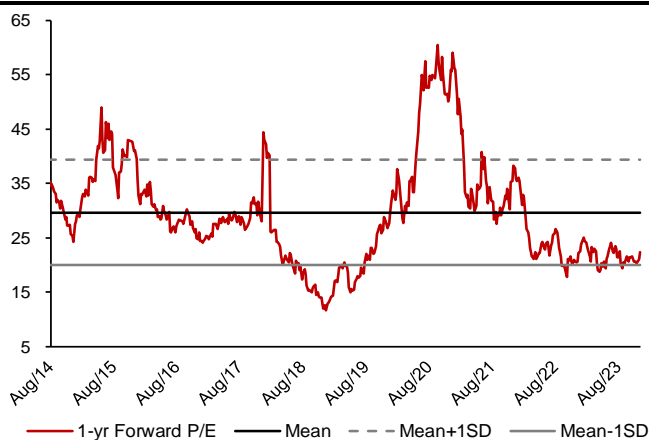
Upcoming catalysts include share gain in Apple products, Vision Pro ramp-up and auto tier-1 progress. Major risks include weaker iPhone/AirPods demand, weaker yield improvement and slower integration of acquired businesses.

Figure 1: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E	P/E (x) FY24E	P/B (x) FY23E	P/B (x) FY24E	ROE (%) FY23E	ROE (%) FY24E
A-listed components												
Luxshare	002475 CH	BUY	34,705	34.45	47.0	36%	22.2	17.6	2.4	2.2	10.9	12.3
Goertek	002241 CH	BUY	10,129	21.01	19.2	-9%	48.9	27.3	2.3	2.1	4.6	7.8
O-film	002456 CH	NR	3,999	8.71	NA	NA	-	42.9	9.8	9.2	(7.3)	9.7
Sunway	300136 CH	NR	3,218	23.60	NA	NA	29.0	22.2	3.1	2.8	10.8	12.2
BOE	000725 CH	NR	20,542	3.90	NA	NA	30.0	13.2	1.1	1.0	3.4	8.0
Hans Laser	002008 CH	NR	3,073	20.72	NA	NA	20.2	15.2	1.4	1.3	7.0	8.8
Lens Tech	300433 CH	NR	9,271	13.20	NA	NA	21.2	16.0	1.4	1.3	6.8	8.5
Everwin	300115 CH	NR	2,247	13.25	NA	NA	61.1	22.2	2.7	2.5	2.9	9.6
Average							33.2	22.1	3.0	2.8	4.9	9.6
H-listed components												
FIT Hon Teng	6088 HK	BUY	1,082	1.16	2.1	78%	7.7	6.2	0.4	0.4	5.2	6.3
AAC Tech	2018 HK	HOLD	3,551	23.15	14.0	-39%	40.7	23.3	1.1	1.1	2.7	4.6
Sunny Optical	2382 HK	HOLD	9,909	70.60	64.1	-9%	46.6	26.5	3.0	2.8	6.4	10.6
Tongda	698 HK	BUY	128	0.10	0.2	65%	5.7	3.6	0.1	0.1	2.3	3.5
BYDE	285 HK	BUY	10,510	36.45	44.2	21%	18.6	14.8	2.5	2.2	13.6	15.1
Q tech	1478 HK	BUY	672	4.43	3.6	-19%	15.9	8.3	0.9	0.9	5.9	10.3
TK Group	2283 HK	BUY	149	1.40	3.1	121%	5.0	3.7	0.7	0.6	13.3	16.3
SMIC	981 HK	NR	29,807	19.70	NA	NA	22.9	25.0	1.0	0.9	4.5	3.6
YOFC	6869 HK	NR	1,948	8.35	NA	NA	4.5	4.7	0.5	0.5	11.8	10.9
Cowell	1415 HK	NR	2,497	22.90	NA	NA	37.1	22.5	5.8	4.6	15.4	22.3
Average							20.5	13.9	1.6	1.4	8.1	10.4

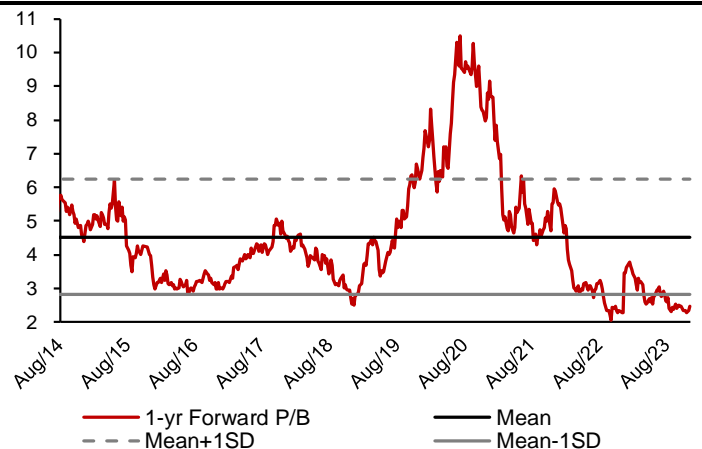
Source: Bloomberg, CMBIGM.

Figure 2: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 3: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	92,501	153,946	214,028	233,706	279,882	329,714
Cost of goods sold	(75,770)	(135,048)	(187,929)	(205,741)	(246,248)	(289,335)
Gross profit	16,731	18,898	26,100	27,964	33,633	40,378
Selling expense	(477)	(790)	(831)	(876)	(1,064)	(1,253)
Admin expense	0	0	0	0	0	0
SG&A expense	5,745	(3,742)	(5,076)	(5,142)	(6,437)	(7,583)
R&D expense	(5,745)	(6,642)	(8,447)	(8,647)	(10,356)	(12,199)
Others	(9,512)	(1,101)	(3,100)	(2,878)	(2,634)	(2,749)
Other income	451	854	602	467	840	989
Gain/loss on financial assets at FVTPL	329	(116)	14	14	14	14
Investment gain/loss	648	689	998	1,300	1,300	1,300
Other gains/(losses)	(2)	118	895	895	895	895
EBIT	8,168	8,167	11,154	13,097	16,191	19,791
Net Interest income/(expense)	(905)	(555)	(883)	(600)	(660)	(726)
Other income/expense	(32)	(25)	4	4	4	4
Pre-tax profit	8,136	8,143	11,158	13,101	16,195	19,794
Income tax	(645)	(322)	(667)	(784)	(969)	(1,184)
After tax profit	7,491	7,821	10,491	12,317	15,226	18,611
Minority interest	266	750	1,328	1,328	1,328	1,328
Net profit	7,225	7,071	9,163	10,990	13,899	17,283
Gross dividends	774	771	927	1,112	1,406	1,748
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	43,396	72,309	88,292	114,650	135,118	148,801
Cash & equivalents	10,528	14,205	19,367	30,269	42,723	42,723
Account receivables	14,100	31,931	26,993	39,248	39,706	52,967
Inventories	13,211	20,901	37,363	26,423	49,922	39,782
Prepayment	184	406	587	587	587	587
Financial assets at FVTPL	3,160	2,107	1,353	1,353	1,353	1,353
Other current assets	2,212	2,760	2,628	2,628	2,628	2,628
Non-current assets	26,617	48,263	60,092	51,843	53,308	53,308
PP&E	21,357	37,799	46,721	40,388	41,853	41,853
Deferred income tax	356	891	1,209	1,209	1,209	1,209
Investment in JVs & assos	1,347	1,362	2,440	2,440	2,440	2,440
Intangibles	1,265	2,223	2,696	2,696	2,696	2,696
Goodwill	533	1,397	1,730	1,730	1,730	1,730
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	1,759	4,591	5,297	5,297	5,297	5,297
Total assets	70,013	120,572	148,384	158,854	169,203	169,203
Current liabilities	33,593	64,831	74,631	81,105	97,313	105,104
Short-term borrowings	7,577	11,920	14,912	15,912	16,912	17,912
Account payables	23,180	45,651	50,302	55,775	70,983	77,775
Tax payable	0	0	0	0	0	0
Other current liabilities	1,438	5,160	7,050	7,050	7,050	7,050
Accrued expenses	1,398	2,100	2,368	2,368	2,368	2,368
Non-current liabilities	5,513	9,959	14,969	14,969	14,969	14,969
Long-term borrowings	1,495	5,025	9,205	9,205	9,205	9,205
Other non-current liabilities	4,018	4,934	5,764	5,764	5,764	5,764
Total liabilities	39,106	74,789	89,600	96,074	112,282	120,074
Share capital	7,000	7,050	7,100	7,100	7,100	7,100
Retained earnings	17,996	24,041	32,288	42,351	55,138	71,015
Other reserves	3,106	4,196	5,952	5,952	5,952	5,952
Total shareholders equity	30,907	45,783	58,784	100,746	113,533	129,410
Minority interest	2,805	10,494	45,343	45,343	45,343	45,343
Total equity and liabilities	70,013	120,572	148,384	196,821	225,816	249,484

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,136	8,143	11,158	13,101	16,195	19,794
Depreciation & amortization	2,417	5,188	7,800	5,328	5,535	5,535
Tax paid	(645)	(322)	(667)	(784)	(969)	(1,184)
Change in working capital	(2,637)	(6,166)	(6,612)	4,159	(8,748)	3,670
Others	(1,043)	120	381	(3,783)	5,400	(6,063)
Net cash from operations	6,873	7,285	12,728	16,898	21,288	21,288
Investing						
Capital expenditure	(7,502)	(12,567)	(13,584)	(7,000)	(7,000)	(7,000)
Acquisition of subsidiaries/ investments	(57,780)	(54,513)	(9,352)	0	0	0
Net proceeds from disposal of short-term investments	56,029	54,095	8,786	0	0	0
Others	105	4,606	824	0	0	0
Net cash from investing	(9,148)	(8,380)	(13,326)	(7,000)	(7,000)	(7,000)
Financing						
Dividend paid	1,066	1,400	1,797	2,255	2,439	2,734
Net borrowings	1,771	(2,622)	8,967	1,000	1,000	1,000
Proceeds from share issues	1,610	2,387	1,597	0	0	0
Others	2,340	(1,555)	(4,204)	(5,109)	(5,539)	(6,193)
Net cash from financing	6,786	(390)	8,156	(1,855)	(2,099)	(2,460)
Net change in cash						
Cash at the beginning of the year	6,147	10,465	8,922	17,312	24,986	24,986
Exchange difference	(195)	(58)	833	0	0	0
Cash at the end of the year	10,465	8,922	17,312	24,986	37,440	37,440

GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	48.0%	66.4%	39.0%	9.2%	19.8%	17.8%
Gross profit	34.4%	12.9%	38.1%	7.1%	20.3%	20.1%
EBIT	42.2%	(0.0%)	36.6%	17.4%	23.6%	22.2%
Net profit	53.3%	(2.1%)	29.6%	19.9%	26.5%	24.3%

PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	18.1%	12.3%	12.2%	12.0%	12.0%	12.2%
Return on equity (ROE)	27.4%	18.4%	17.5%	13.8%	13.0%	14.2%

GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.3	1.1	1.2	1.4	1.4	1.4
Receivable turnover days	6.7	6.7	7.3	7.3	7.3	7.3
Inventory turnover days	7.2	7.9	6.5	6.5	6.5	6.5
Payable turnover days	3.7	3.9	3.9	3.9	3.9	3.9

VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	44.0	41.4	26.7	21.5	17.0	13.6
P/B	10.4	6.4	4.2	2.3	2.1	1.8
Div yield (%)	0.2	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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