

LUXSHARE 002475 CH

BUY

TARGET PRICE RMB45.00
UP/DOWNSIDE +18.5%
CLOSE RMB37.99

HOW WE DIFFER FROM CONSENSUS		MARKET RECS	
TARGET PRICE (%)	1.5	POSITIVE	3
EPS 2015 (%)	(5.7)	NEUTRAL	0
EPS 2016 (%)	(4.0)	NEGATIVE	0

Growth from multiple drivers

■ Initiating coverage at BUY with a TP of RMB45

We initiate coverage with a BUY rating and TP of RMB45, implying 18.5% upside potential. Luxshare is a leading connector supplier in the consumer electronics area and has delivered an EPS CAGR of 53% over the past five years. We expect this strong momentum to continue, with a 48% earnings CAGR over FY15-17E.

■ Driver 1: Riding on type C connector demand

Type C is a new connector spec for various devices, and we expect market demand to gradually pick up from 2H15, with penetration in the PC market reaching 57% in FY17, from 5% in FY15. As one of the few qualified vendors, Luxshare stands to benefit in the next two years, and we expect Type C to contribute 13% of sales in FY17, from 3% in FY15.

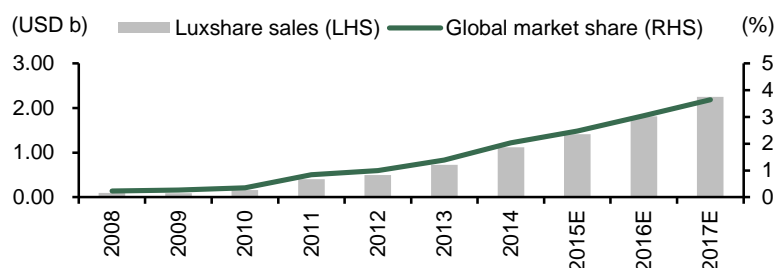
■ Driver 2: Sweet taste of Apple

We expect continued share gain at Apple in FY15-17, largely because Luxshare is the sole supplier of the *iWatch* wireless charger, and also a supplier of its NB external power cables and lightning cables for mobile devices. We expect margin expansion from FY16, driven by a favourable product mix and continued vertical integration.

■ Strong earnings growth deserves a valuation premium

Our target price of RMB45 is based on 0.85x FY16E PEG (37x FY16E P/E), the average of global and China A share peers' 0.3-2.3x and well supported by our DCF model. We think the valuation is justified by (1) strong earnings growth with ROE expansion in FY15-17E, and (2) superior market position in the tech upgrade trend.

Luxshare continues to gain global market share



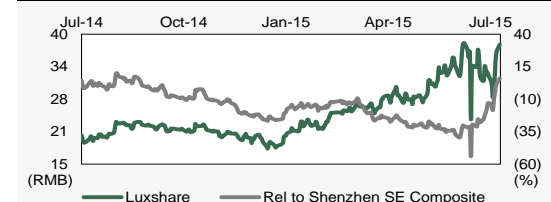
Sources: Huidian Research; BNP Paribas estimates



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KEY STOCK DATA

YE Dec (RMB m)	2014A	2015E	2016E	2017E
Revenue	7,296	10,354	13,932	18,191
Rec. net profit	630	1,059	1,517	2,048
Recurring EPS (RMB)	0.76	0.85	1.22	1.64
EPS growth (%)	22.0	12.0	43.2	35.1
Recurring P/E (x)	50.2	44.8	31.3	23.1
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	24.7	26.6	23.7	17.9
Price/book (x)	6.9	8.6	6.9	5.4
Net debt/Equity (%)	3.6	20.6	20.2	13.3
ROE (%)	18.2	21.0	24.4	26.1



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.8)	29.6	94.6
Relative to country (%)	53.1	39.3	5.9
Next Results	July 2015		
Mkt cap (USD m)	7,635		
3m avg daily turnover (USD m)	66.1		
Free float (%)	40		
Major shareholder	Luxshare Co. (58%)		
12m high/low (RMB)	38.29/17.98		
3m historic vol. (%)	135.5		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	1,248		

Sources: FactSet estimates; BNP Paribas estimates

Our research is available on Thomson One, Bloomberg, TheMarkets.com, FactSet and on <http://eqresearch.bnpparibas.com/index>. Please contact your salesperson for authorisation. Please see the important notice on the back page.

Investment thesis

We initiate coverage of Luxshare with a BUY rating and target price of RMB45, suggesting 18.5% potential upside.

1 Potential beneficiary of new type C connector trend.

Luxshare is well positioned in the nascent Type C connector market, on the back of its experience in internal cables and bigger production scale. We expect type C connector penetration to reach 57% in the PC market by FY17, from 0%/5% in FY14/FY15.

2 Continued share gain at Apple (AAPL US) and vertical integration strategy to expand margins. We expect sequential sales growth from Apple products, mainly driven by *iWatch*, external connectors for Apple's NB products and its lightning cable. Its strategy on vertical integration and new focus on telecom/auto areas should result in further margin expansion.

3 Strong earnings growth to support valuation. Our TP of RMB45 is based on 0.85x FY16E PEG, which is the average of global and China A-share peers' range of 0.3-2.3x, based on Bloomberg consensus estimates, and well supported by our DCF model. We believe our TP is justified by the prospect of strong earnings growth in the next two years, ROE expansion, and superior position to benefit from the mega trend in technology industry.

Catalyst

- 2H15 margin expansion, driven by a better product mix.
- Potential M&A and strategic investment.
- Further market share gain at Apple products.
- Upcoming new consumer electronic products with type C connector design.

Risk to our call

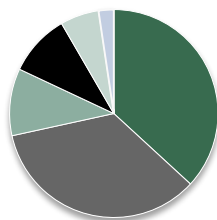
Downside risks: 1) softer than expected top-line growth in FY16-17, although we think softer PC demand could be offset by market share gains and spec upgrades; 2) ASP erosion from market competition; 3) market share loss at its key customer; 4) over-reliance on one customer (44% sales from Apple in FY15E), but Apple exposure should decline to below 28% in FY17, based on our forecast; 5) delayed type C market demand; 6) lower utilisation as its in-house supply; and 7) currency exchange rates.

Company background

Established in May 2004, Luxshare Precision Industry Co., Ltd (Luxshare) is a worldwide leading consumer electronics cable and connector manufacturer with applications including PC, TV, handset, game console, wearable devices, server, automotive and so on.

Principal activities (revenue, 2014)

- Apple products - 36.9%
- PC (non-Apple) - 34.7%
- Consumer electronics (non-Apple) - 10.4%
- Automotive - 9.6%
- Communication - 6.0%
- Others - 2.4%



Source: Luxshare

Key executives

	Age	Joined	Title
Ms. Wang Laichun	48	2004	Chairman/President
Mr. Wang Laisheng	51	2004	Vice Chairman
Mr. Chen Chaofei	43	2004	Vice President

<http://www.luxshare-ict.com/cn/>

Key assumptions

	2014 (RMB m)	2015E (RMB m)	2016E (RMB m)
Apple products	2,689	4,496	5,479
PC connector (non-Apple)	2,533	3,443	4,918
Consumer connector (non-Apple)	761	542	683
Automobile connector	704	1,054	1,494
Communication connector	438	689	1,112
Total sales	7,296	10,354	13,932
Change (y-y %)	59	42	35
GM (%)	23.3	23.0	23.2

Sources: Luxshare; BNP Paribas estimates

Earnings sensitivity

(%)	FY15E			FY16E		
	Bear (%)	Base (%)	Best (%)	Bear (%)	Base (%)	Best (%)
Revenue growth	38	42	59	30	35	40
Implied PC Type C penetration	1	5	10	20	30	40
Gross margin	21.0	23.0	25.0	21.0	23.2	25.0
Net margin	7.9	10.2	12.7	8.4	10.9	13.3
Upside/downside	(23.0)	0	24.2	(23.0)	0	22.0

Sources: Luxshare; BNP Paribas estimates

- Key earnings drivers include revenue growth and margins.
- Every 1bp increase in gross margin would raise our earnings estimate by 3-8% in 2015, all else being equal.
- Every 1% type C penetration rate increase would increase our earnings estimates by 1-2%, all else being equal.

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Executive summary: Initiate at BUY with TP of RMB45

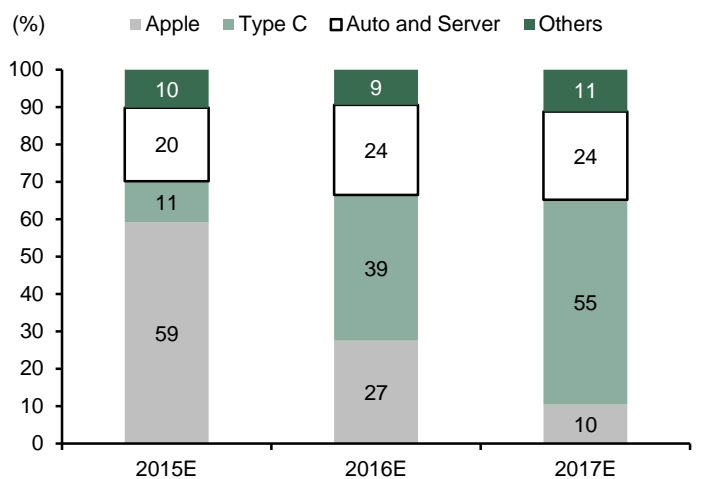
We initiate coverage on Luxshare with a BUY rating and a target price of RMB45, implying 18.5% upside from current levels. Luxshare is a leading connector and cable assembly supplier in the consumer electronics industry and should benefit from the take-off of new type C connector and from the demand uptrend in wearable devices. The ongoing vertical integration and potential opportunity from telecom and automotive areas should provide upside to gross margins. We think the combination of an attractive market opportunity and Luxshare's market position will ensure CAGRs of 36% in revenue and 48% earnings over the next three years.

Key investment thesis

Driver 1 - Riding on the new type C connector demand: Luxshare is well positioned in the connector market and will benefit from the upcoming demand Type for C connector given its experience in internal cable (harness) and better production scale. Our industry analysis suggests that leading cable players will play a more important role in type C connector supply chain given the higher technical difficulty during assembly process and the cable requirement, which should keep out competition. We expect type C connector penetration to reach 57% in PC market by FY17, which we estimate will drive Luxshare's global market share to 3.6% in FY17, from 2.0% in FY14. We forecast type C connector sales contribution to grow to 13% in FY17, from 3% in FY15.

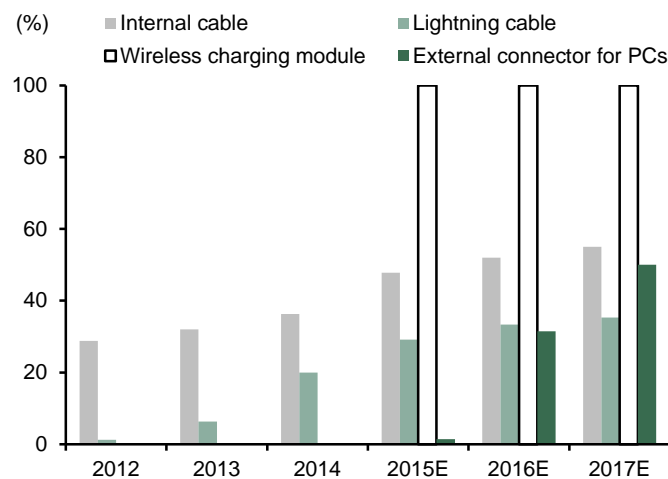
Driver 2 - Continued share gain at Apple in FY15-17: We forecast sequential sales growth from Apple (AAPL US) products in the next three years, mainly driven by Luxshare being the sole supplier for *iWatch* wireless charging module, continued market share gains in lightning cable for mobile devices and in type C connectors for Apple's NB products. We think Luxshare will be the second supplier source for Apple and win some allocation in the longer term from Apple's diversification strategy and given its expertise in cable. As well, we appreciate the company's long-term strategy on vertical integration and new focus on the telecom/automotive areas, which should result in gross margin expansion.

Exhibit 1: Incremental sales mix by product lines



Source: BNP Paribas estimates

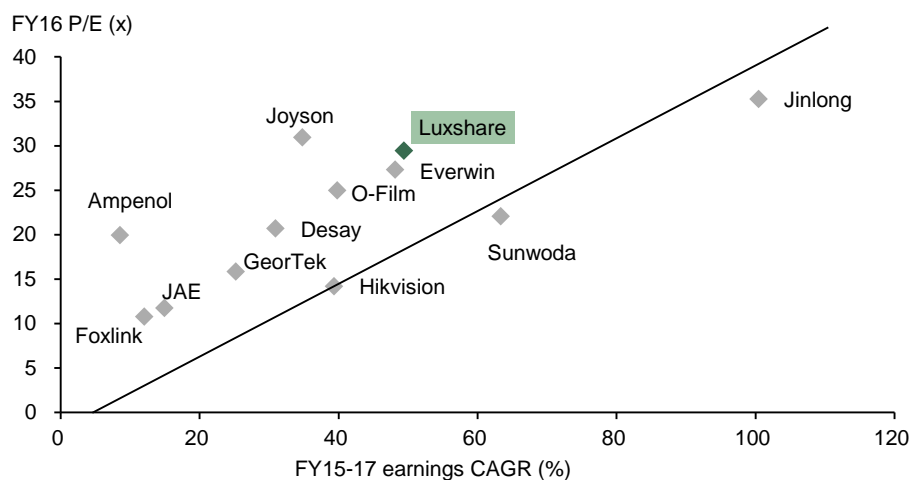
Exhibit 2: Continued share gain at Apple



Sources: Luxshare; BNP Paribas estimates

Stronger earnings growth among A-share peers: Driven by continued earnings performance, Luxshare has been re-rated and currently trades at FY16E P/E of 31x, which is at the higher end of the historical trading range of 7-37x since FY11. Our target price of RMB45 is based on 0.85x FY16 PEG (37x FY16 PE), which is the average level of Global and China peers' range of 0.3-2.3x, and the valuation is also supported by our DCF model. We believe the target price is justified by its strong earnings growth in next two years, ROE expansion, and superior position to benefit from the mega trend.

Exhibit 3: FY16E P/E vs FY15-17E earnings CAGR shows Luxshare's valuations are reasonable than those of its A-share peers



Sources: BNP Paribas estimates for Luxshare; all others are Bloomberg consensus estimates

Potential share price catalysts

Margin expansion in 2H15, driven by a favourable product mix

We see the potential for margin expansion in 2H15, driven by a better product mix as new type C connector product carries higher margins. Longer term, we think the continued vertical integration and possible increase in-house supply of cable and connector will lift margins.

New client gain for new business

We are impressed by Luxshare's customer portfolio for its internal and external cable products. We believe any new customer wins for its non-PC/consumer products, such as antenna, server connector, or automotive, will act as a catalyst for the stock price as this offers growth prospects and also meets customers' demand from suppliers to provide total solutions.

Upcoming M&A and strategic investment

Since its IPO in 2010, there has been a lot of M&A activity at Luxshare. The company is likely to continue with its M&A strategy to generate synergy benefits and expand scale. We see any M&A announcement or strategic investment in related supply chain as a catalyst to share price.

Exhibit 4: Historical M&A activities since IPO

Time	M&A information
Jan-11	Acquired Boshuo Co
Jan-12	Acquired Shenzhen Science Expert Industrial Co (Automotive related business)
May-12	Acquired Dongguan Xuntao Electronics
Jun-12	Acquired Fujian Wiring Systems
Sep-12	Acquired ZhuHai All-Winner FPC Co. (For FPCB business)
Jan-14	Acquired German company, SUK Kunststofftechnik GmbH
Mar-14	Acquired Toyoshima Electronic Technology Suzhou (For Cable business)

Source: Luxshare

More brands to launch products with type C connector design

We expect more brands to launch new models adopting type C connector design, which should reinforce our view on the upcoming market demand. We think the market will view this as a positive for Luxshare.

How we differ from the Street

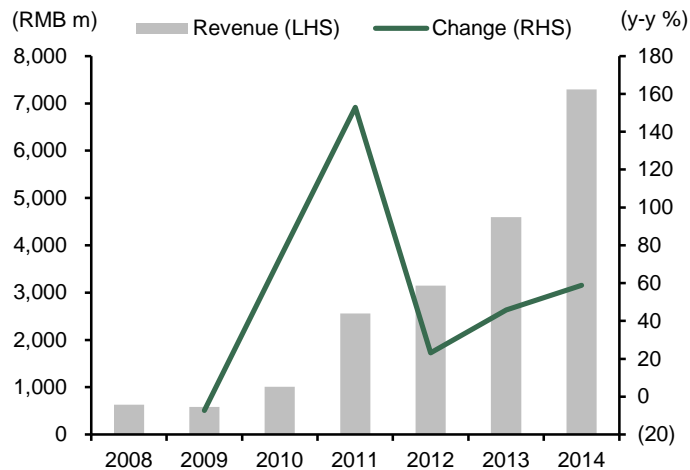
- 1 Luxshare is not well covered by foreign brokers and we are the first one to emphasize its core competence, including (1) reference design for IC partner or brands, and (2) expertise in internal cable to help it stand out in type C connector market.
- 2 We have an anti-consensus view that vertical integration and increasing in-house connector and cable supply will boost the company's margins. Therefore, our gross margin assumptions for FY16-17 are slightly above (10-30bp) Bloomberg consensus, although we forecast softer gross margins for FY15 on lower utilisation at the *iWatch* production line.
- 3 Our sensitivity analysis on type C penetration rate in the PC market helps investors to evaluate the potential earnings impact from the type C connector progress.

China's largest cable and connector player

Established in 2001, Luxshare is China's largest cable assembly and connector supplier. Riding on the demand for Apple products, Luxshare has become one of the largest connector players in the consumer electronics market. Luxshare started as a cable outsourcing vendor for Hon Hai Group (2317 TW) in FY04 and directly penetrated into Apple products in 2H09 for the first-generation *iPad* product.

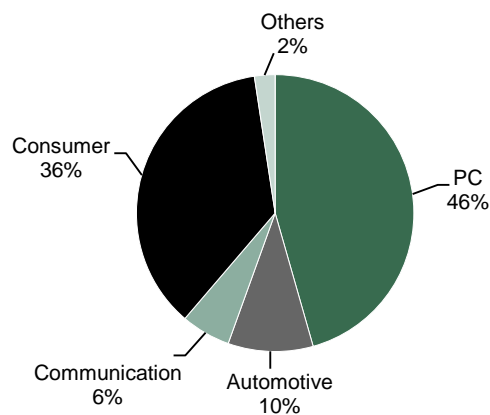
Luxshare has also expanded its product portfolio through M&A, and its products are mainly used in PC (desktop and NB), TV, handset, game console, wearable devices, server, and automobile.

Exhibit 5: Strong revenue growth since FY08



Source: Luxshare

Exhibit 6: 2014 sales mix


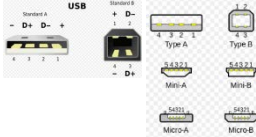

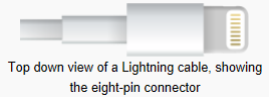




Source: Luxshare

Connector is the most important business

Connector is a basic component and acts as a functional element in different devices, equipment and system. The main function of connector includes: (1) connecting electrical signal or optical signal between devices, (2) transmitting signal or electromagnetic energy, and (3) keeping systems from signal distortion and energy loss. In the consumer electronics industry, the most common connector format today are SATA, USB (Type A, Type B, Micro B), HDMI, DisplayPort, and Apple's lightning cable. Luxshare provides connector assembly service for customers. Connector accounted for +75% of Luxshare's total revenue in 2014.

Exhibit 7: Common connector interface in consumer electronics market

Interface	Picture	Description	Type C integration?
Serial ATA (SATA)		SATA is a computer bus interface that connects host bus adapters to mass storage devices such as hard disk drives and optical drives.	No
Universal Serial Bus (USB)		USB is an industry standard developed in the mid-1990s that defines the cables, connectors and communications protocols used in a bus for connection, communication, and power supply between computers and electronic devices	Yes
DisplayPort		DisplayPort is a digital display interface developed by the Video Electronics Standards Association (VESA). The interface is primarily used to connect a video source to a display device such as a computer monitor.	Yes
Lightning connector	 Top down view of a Lightning cable, showing the eight-pin connector	Lightning is a proprietary computer bus and power connector created by Apple to replace its previous proprietary 30-pin dock connector, used to connect Apple iPhones, iPads and iPods to host computers, external monitors, cameras, USB battery chargers and other peripherals.	Yes
High-Definition Multimedia Interface (HDMI)	 HDMI official logo and standard connector	HDMI is a proprietary audio/video interface for transferring uncompressed video data and compressed or uncompressed digital audio data from an HDMI-compliant source device, such as a display controller, to a compatible computer monitor, video projector, digital television, or digital audio device.	Yes
Mobile High-Definition Link (MHL)		MHL is an industry standard for a mobile audio/video interface that allows consumers to connect mobile phones, tablets, and other portable consumer electronics (CE) devices to high-definition televisions (HDTVs) and audio receivers.	Yes

Sources: Wiki; BNP Paribas

A reference design partner for IC makers and standard associations

Luxshare has delivered strong revenue and earnings over the past five years and its customers include many tier one brands such as Apple, Lenovo, Samsung Electronics, LG Electronics, Dell, HP, Huawei, Sony, Microsoft, among others. One of the reasons for the close relationship with customers is that Luxshare acts as a reference design partner with IC makers, standard associations and ODMs on new product development. As such, branded customers rely on Luxshare's know-how on material, production process, and testing equipment. Developing new products along with clients, we believe Luxshare can enjoy the status of being an exclusive supplier for at least six months to a year, thereby enhancing margins.

Exhibit 8: Luxshare has a strong customer portfolio

Product line	2014 Sales (%)	Major clients
PC connector	46	Dell (Not-listed), HP (HPQ), Lenovo (0992HK), Asus (2357TT), Acer (2353TT), Apple, Samsung (005930KS), Toshiba (6502JP)
Consumer connector	36	Apple, Samsung, Microsoft (MSFT), Sony (6758JP), Nintendo (7974JP), Sharp (6753JP), Toshiba, Google (GOOG), GoPro (GPRO), Huawei (not listed), ZTE (0763HK), OPPO (Not-listed), Lenovo, TCL (2618.HK), LeTV (300104CH), Xiaomi (not-listed), among others
Communication connector	6	Huawei, Lenovo, Cisco (CSCO), IBM (IBM), among others
Others	12	Seagate (STX), Elecom (Not-listed), Belkin (Not-listed), Best Buy (BBY), Continental (Not-listed), Pioneer (6773JP), Lear (LEA), Magna (Not-listed), Johnson Controls (JCI)

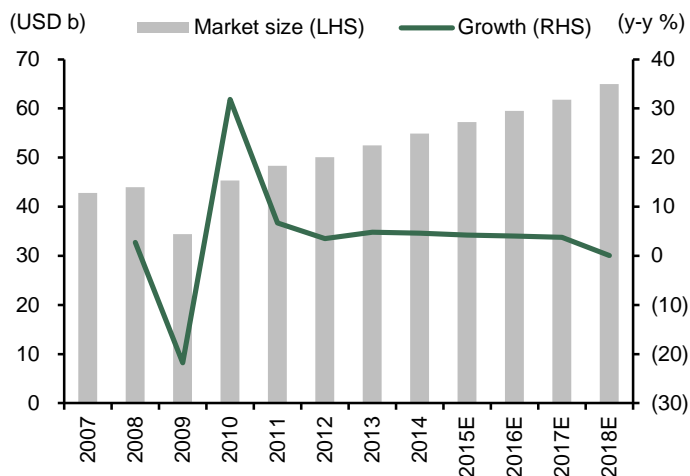
Source: Luxshare

Luxshare continues to gain market share globally

Huidian Research forecasts the global connector market will increase at 4% CAGR over FY15-17. We believe the potential drivers include: (1) new standard connector like Type C connector, (2) fast growth from the server and telecommunication segment, and (3) organic growth from the consumer electronics market and existing applications. Currently, Luxshare is a top 10 connector player in the world with a

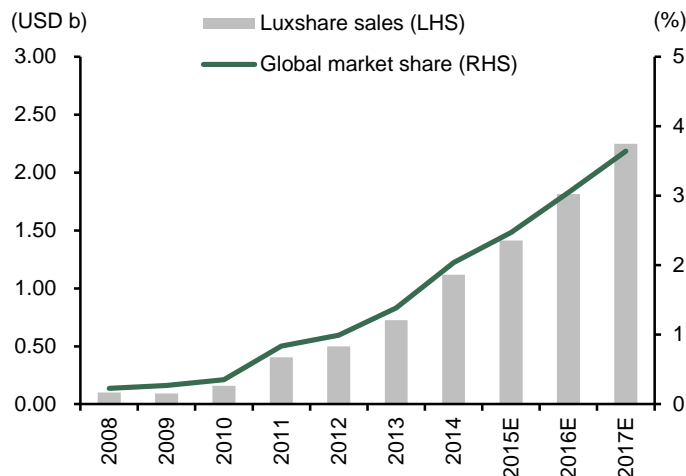
revenue market share of 2% in FY14. We expect Luxshare to continue to gain share steadily, driven by Apple products and its leading position in the consumer electronics market.

Exhibit 9: Global connector is seeing mild growth



Sources: Huidian Research

Exhibit 10: Luxshare revenue and market share



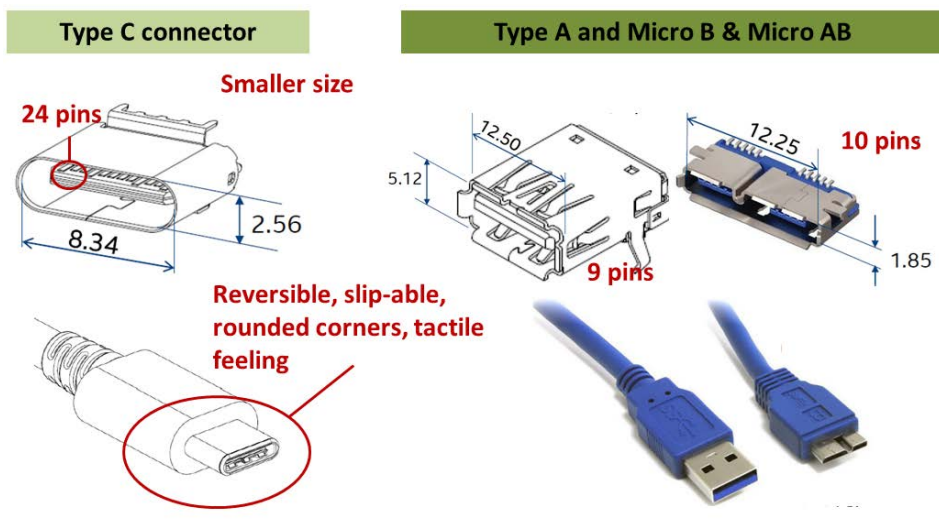
Sources: Huidian Research; BNP Paribas estimates

Type C connector is the connector of the future

Type C connector is likely to become a major hardware spec from 2H15 onward, driven by Intel (INTL US) and Universal Serial Bus's (USB; not listed) promotion of the new USB 3.1 platform. Type C connector is especially designed for USB 3.1 specification and could be applied to various devices. The key differences between type C and other connectors are as follows:

- Enhance user experience:** The advantage of type C connector includes smaller size, reversible-plug, and the ability to support up to 10Gbps data transmission (with USB 3.1 spec), 100% faster than the current connector (type A +USB3.0).

Exhibit 11: Type C enhances user experience



Sources: Intel; BNP Paribas

- One connector platform (can also support legacy USB devices):** Unlike other connectors, type C connector can be a total solution for different applications, such as desktop, NB, mobile, and tablet. Generally, PCs and laptops need different chargers than smaller devices like mobile phones and tablets due to different voltage needs. However, the design of type C can be the solution for this issue. Meanwhile, it can also support legacy connectors like type A, B, or Micro B, through cable assembly and adapter. As well, the type C could potentially be applied to Apple products.

Exhibit 12: Broader application for Type C

Connector	Major application
Type A	PC including NB and Desktop
Type B	Gradually phasing out
Type Micro B	Non-Apple handset and tablet; mobile power bank
Lightning cable	Apple iPhone and iPad
Type C	NB, Desktop, handset, tablet and other consumer electronics

Source: BNP Paribas estimates

- Power charging support:** The USB Power Delivery specification is being updated to enable USB PD to support the USB Type-C cable and connector spec. Type C connector will also support up to 100W of power, in the USB Power Delivery specification. In other words, Type C can replace the current NB PC power cord.
- EU policy to favour Type C development:** To reduce electronic waste, the EU approved a law in 1Q14 on a universal charger for smartphones and the law requires smartphone makers to use one universal type of charger by 2017. We believe the policy will stimulate the penetration of USB type C connector. Based on the current market situation, we believe type C has a better chance of becoming the mainstream charger with transmission function.

Exhibit 13: EU approved a law on universal charger for handsets



Sources: www.bbc.co.uk/news; BNP Paribas

Only four connector players are qualified for Type C connector/harness now

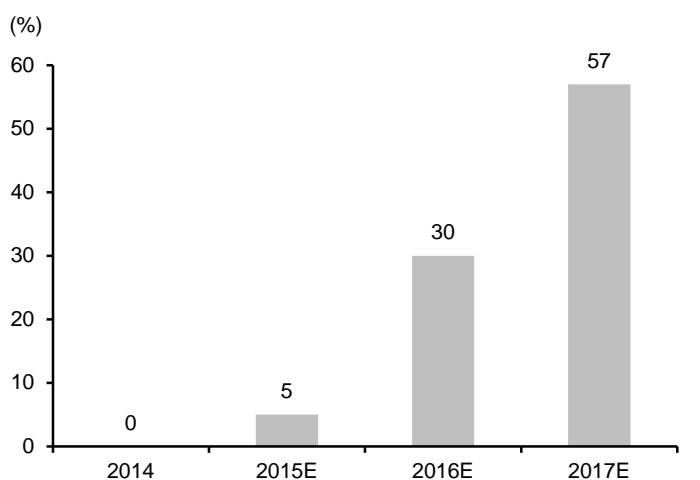
Brands and ODMs tend to procure connectors from qualified vendors. For type new type C connector, only four players are currently qualified by the USB association to manufacture cables and connectors. These companies are Luxshare, Foxlink, JAE, and Lotes. We expect more companies to be certificated for type C in the future but we think those four companies will benefit more in the beginning.

Growth driver 1: Riding on the new type C connector opportunity

In our view, Luxshare will be the biggest beneficiary of the potential demand upswing in type C connector, due to its experience in internal harness and better production scale. We forecast type C penetration in the overall PC market will increase to 57% in FY17, from 5% in FY15. Luxshare looks well positioned for the upcoming upgrade trend, and we think the increasing Type C exposure will improve overall profitability as type C products carry much higher ASP and gross margin.

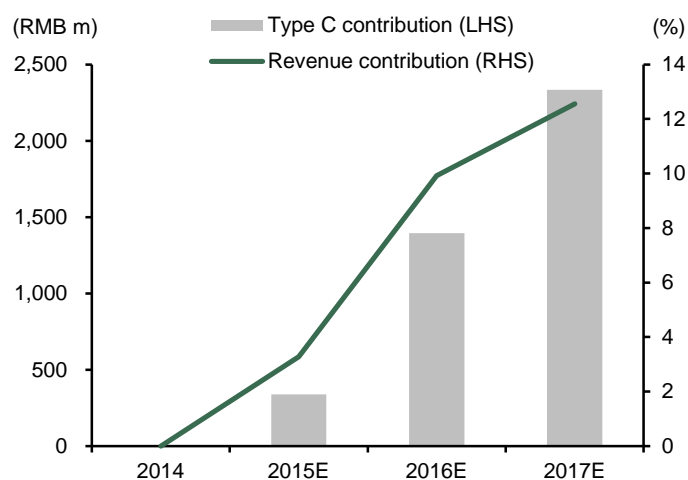
Type C opportunity is an incremental gain for Luxshare as it has had <10% sales exposure to legacy connector (in-box market) over the past three years on margin concerns. Nevertheless, since the introduction of type C, Luxshare's type C product has penetrated into many customers, such as Microsoft, Apple, LeTV, Samsung, Huawei, among others. We forecast the company's type C revenue (in-box market) contribution from the PC segment will exceed 13% in FY17, from 3% in FY15.

Exhibit 14: Type C penetration increasing in the PC market



Source: BNP Paribas estimates

Exhibit 15: Type C revenue contribution surging in PC for Luxshare






Source: BNP Paribas estimates

High requirement on type C cable production

Type C connector has raised the bar for cable suppliers, especially for the assembly and cable production of (1) Type C + USB 3.1 and (2) Type C + USB 3.0. Generally, type C connector can be applied to three different USB platforms: USB 2.0, USB 3.0, and USB 3.1. Different combination suggests different functional performance, which will also require different level of cable. As a result of internal harness and coaxial cable experience, Luxshare is one of the few connector assembly suppliers who can offer high quality with better yield rates among peers, reinforcing its important position in type C supply chain.

We think the increasing connector assembly difficulty will mainly come from the increasing precision (type C includes 24 pins, vs Type A's 9 pins) and the coaxial cable material. The current assembly production yield for type C + USB 3.1 is less than 40%, in our view. In addition, under type C + USB 3.0/3.1, the usage for micro coaxial cable will increase significantly. With prices normally 2-3 times higher than traditional cable "shielded twist pair (STP)", coaxial cable is an advanced cable with better efficiency, in terms of insertion loss performance, durability, and physical features. Coaxial cable also requires different know-how to current cable suppliers.

Exhibit 16: Type C connector requires higher cable production standard

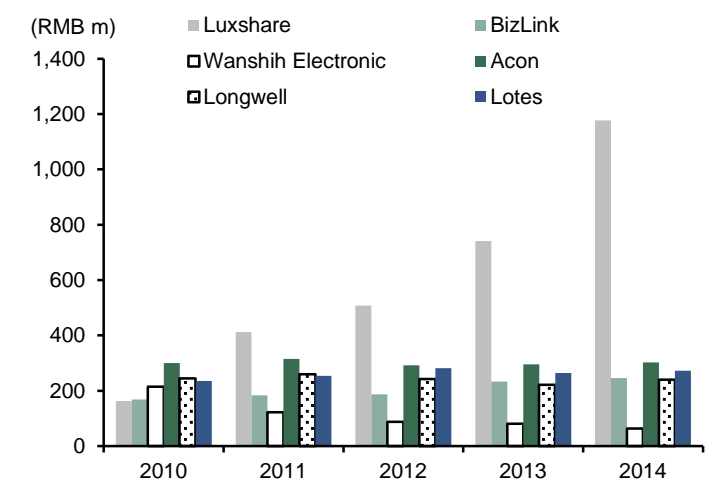
	Type C + USB 2.0	Type C + USB 3.0	Type C + USB 3.1
Speed	480 Mbps	5 Gbps	10 Gbps
Power output	2.5W	15W	Up to 100W
Production entry barrier	Very low	Medium	High
Current cable assembly production yield	95% above	60-75%	below 40%
Cable material	STN	STN or Coaxial cable	Coaxial cable
Cable O.D. (diameter)	3.3 +/- 0.2 mm	3.2 +/- 0.2 mm	4.6 +/- 0.2 mm
Cabling	3	8	15
Cross section			

Source: BNP Paribas estimates

Better production scale

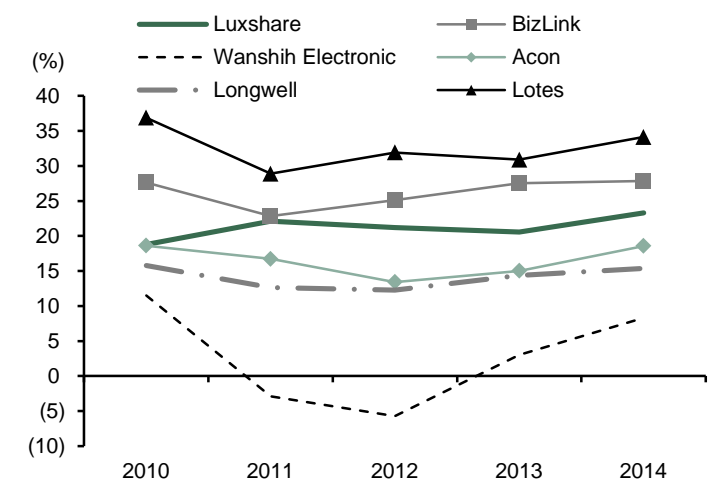
We believe connector assembly is a scale game. For type C products, we think Luxshare can deliver better cost efficiency than peers, given its: (1) bigger production scale, especially at the material procurement side (ex-connector, cable, copper), (2) less equipment purchased than peers as Luxshare has its own coaxial cable production lines for the internal harness business and the equipment for which has been depreciated for several years, implying a better cost advantage than competitors who have to procure new equipment or machine.

Exhibit 17: Revenue scale bigger than other connector assembly players



Acon (5491TW), Bizlink (3665TW), Longwell (6290TW), Wanshih Electronic (6134TW), Lotes (3533 TT)
Sources: TEJ; Bloomberg

Exhibit 18: Gross margin comparison with other connector assembly peers



Sources: TEJ; Bloomberg

Implications for the supply chain: Leading cable makers to stand out

As discussed previously, type C connector can be based on different USB specification, including USB2.0, USB 3.0 or USB 3.1. Still, the manufacturing of USB 3.1 version (Gen 2) requires higher precision and coaxial cable experience. Among existing connector and cable assembly suppliers in the consumer market, we think only those companies which have strong cable ability such as Luxshare, Foxlink (2392.TW), Hon Hai (2317 TW), and Japanese connector players including JAE (6807 JP) are capable of producing Gen 2 cable with good yields. Supported by its know-how in cable, Luxshare's type C product can differentiate itself with peers' and penetrate into existing customers. Notably, we think Gen 2 cable will account for 20% of total type C market while the majority of type C market will use lower end cable (USB 2.0); the retail price gap is 40-50% now.

We also expect the demand for type C converter and USB dongle to pick up as the type C penetration grows, given the adoption rate is different among different applications.

Other factors to stimulate type C demand

We believe type C demand will gradually increase from 2H15 and overall penetration should pick up fast in FY16-17, driven by: (1) better user experience and functional performance, (2) brands to follow Apple's design, and (3) simpler design in NB to decrease manufacturing cost.

Apple's new Macbook to lead the market direction

Apple is the consumer electronics brand which tends to lead market innovation and trend. It unveiled the latest Macbook model in March 2015 and the new NB model adopts type C connector design (with USB 3.0). In the longer term, we expect other brands to follow Apple's design to launch new products with type C connector from 2H15 onward.

Exhibit 19: Apple's new 12" Macbook adopt new USB Type C connector design

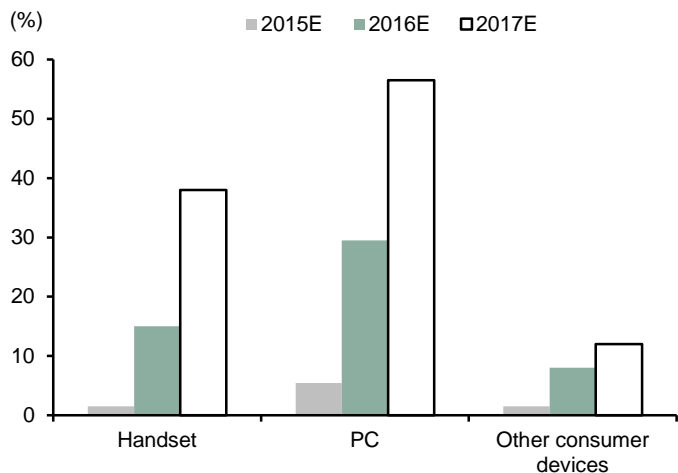


Source: Apple

A simple design to reduce internal cable cost

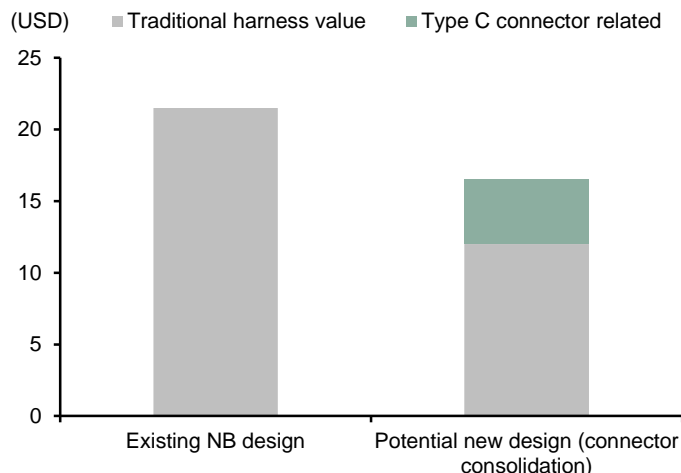
We think the key reason for PC brands to consolidate different connectors and power port to only a powerful type C connector is cost reduction. Technically, different connector spec in PC/NB requires different connection to internal motherboard. The decrease in connector types means PC brands do not need to set up different connection links to motherboard. Instead, the brands only need a type C connection going forward. Eventually, we believe the potential NB internal cable design change can save 20% of the connector expense.

Exhibit 20: Type C penetration in consumer electronics



Source: BNP Paribas estimates

Exhibit 21: Type C design lowers internal cable cost



Source: BNP Paribas estimates

PC products to lead growth in the near term

Like USB type A connector and other connectors in consumer electronic devices, type C connector can be used in different applications, including handset, PC, Tablet, wearable devices, and other devices. Although we have only seen few consumer electronics which use type C as connector so far, we expect the type C penetration rate to pick up further in the next 2-3 years. Among different devices, PC will likely to have the highest penetration rate in FY15-16, in our view.

- 1 Nokia tablet (Type C with USB 2.0): Hon Hai is the sole type C connector and cable supplier
- 2 Apple Macbook (Type C with USB 3.0): Foxlink and Hon Hai Group supplied inbox cable in 1H15 while Luxshare will focus on the retail market first but it may enter inbox supply chain later on.
- 3 LeTV's new handset models (Type C with USB 2.0): Luxshare is the sole type C supplier.

NB and Desktop PC: Within the PC segment, we expect the penetration rate of type C with USB 3.1 to increase from 2H15 onward, driven by new model launches from different brands, including Apple, Asus, Dell and HP. The adoption rate in NB PC seems to be higher than other applications as end users tend to use cable and connector to conduct data transmission, partially driven by high resolution movie and better audio products, in our view.

Exhibit 22: The new model line-up with Type C connector

Time	Brand	Application
4Q14	Nokia	Tablet
2Q15	MSFT	Tablet and Smartphone
	Western Digital	Mobile storage
	Samsung	Tablet and Smartphone
	Seagate	Storage
2H15	Asus	NB
	Apple	NB
	Acer	Chromebook
	Asus	Chromebook
	Dell	Chrome Pixel
	HPQ	NB
	Samsung	NB
	Toshiba	NB

Nokia (NOK), Western Digital (WDC), Seagate (STX)
Source: BNP Paribas estimates

Mobile device (smartphone and tablet): We expect type C to gradually replace type A, but this will largely be in the USB 2.0 platform, instead of USB 3.1, as the data transmission for mobile devices is mainly through wifi or Bluetooth. Without the function of data transmission, we believe the major purpose of connector at mobile devices will be power delivery.

However, we think the incentive for handset brands to adopt type C (to replace type A) is much less than for PC makers given limited cost reduction. Besides, the potential extra cost will come from the higher cost (10-20%) of cable production on advanced design. But, we expect the penetration rate to pick up gradually in the handset market, driven by: (1) efficient power delivery, (2) the push from PC brands, and (3) high resolution video or image will require fast transmission.

Storage device and others: We think the portable power bank will adopt type C with USB 3.1 based on the improved efficiency of data transmission. We believe the major application is external hard drives and portable power bank devices. In order for the enhanced performance of Type C connector to work, both ends (host and device ends) of the product must also be Type C connectors. Therefore, we expect

other consumer devices for type C penetration to increase gradually. Meanwhile, cable makers should also benefit from the temporary demand pick up from adopter and dongle during the type C connector transition period.

Growth driver 2: Market share gains at Apple product

By leveraging its type C expertise and existing relationship with Apple, Luxshare should gain share at Apple. Luxshare has been doing business with Apple since 2008, and we think the company will continue to gain share in Apple products given its production quality and Apple's strategy to diversify its vendor base. Currently, Luxshare's Apple product exposure includes: (1) lightning cable for the *iPhone* and the *iPad*, (2) internal cable (harness) for the *Macbook* and *iMac*, (3) wireless charging module for the *iWatch*, and (4) Type C external connector for the new *Macbook* model from FY16.

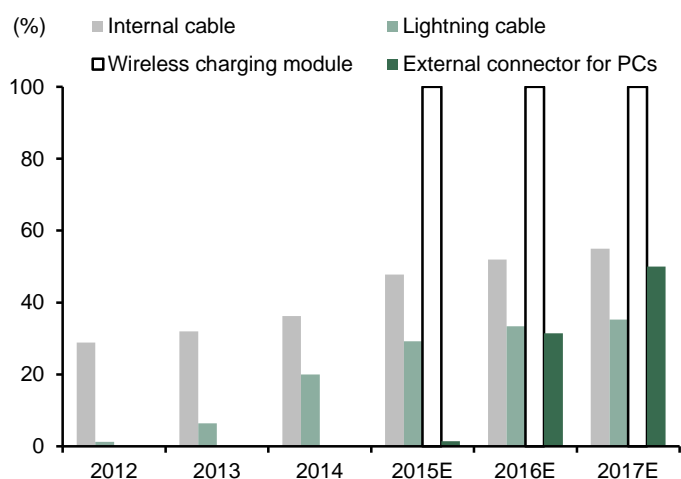
Competing with Hon Hai Group, we expect Luxshare to be a second supplier source for Apple products, and we remain confident that Luxshare will gain certain level of allocation from Apple's diversification strategy given its expertise in internal cable area. In our view, further market share gains will mainly come from lightning cable for the *iPhone* and the *iPad* and from type C connector (cable) for *Macbook* products as its existing share in internal cable (c50%) and wireless charging module (100%) has limited upside. Hence, after we take the normal ASP erosion and potential change in PC design into consideration, we forecast Luxshare's revenue contribution from Apple to increase 67% y-y with sales contribution of 43% in FY15, versus 37% in FY14.

Exhibit 23: Major exposure to the Apple business in FY15

Product	Apple application	Current allocation (%)	Major competitor	2015 revenue mix (%)
Lighting cable	iPhone/iPad	29	Hon Hai, Foxlink	24
Internal cable (harness)	Macbook/iMac	48	Foxlink, Fujikura	9
Wireless charging module	<i>iWatch</i>	100	n.a.	11
External power cord/connector (type C)	Macbook/NB	1	Foxlink, Volex, Longwell	0.20
Total Apple exposure				43

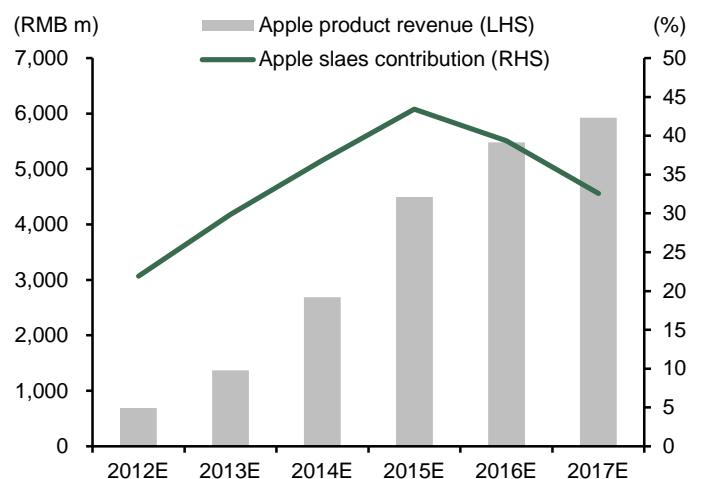
Source: BNP Paribas estimates

Exhibit 24: Continued market share gain at Apple products



Sources: Company data; BNP Paribas estimates

Exhibit 25: Sales from Apple products continues to increase



Sources: Company data; BNP Paribas estimates

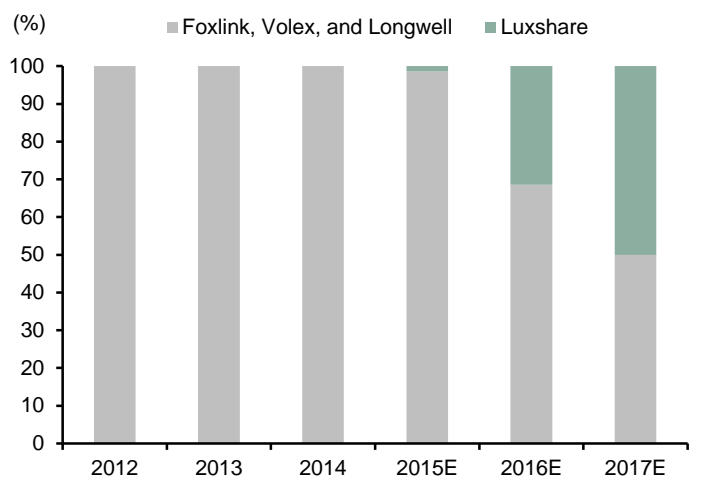
Significant breakthrough into external cable (power cord)

Given Luxshare's specialty and expertise in cable manufacturing, we expect it to become a supplier for the new 12" Macbook once Apple's remaining NB models adopt the type C connector. Luxshare could share the order allocation (in-box order) with Foxlink. Although *Macbook's* shipment scale is way below that of the *iPhone* and the *iPad*, we see Luxshare as a major beneficiary of Apple's design change as it is the first time that Luxshare will supply external cable and connector for Apple NB products. We also believe Luxshare will have a much higher chance of becoming one of the key type C connector partners.

Overall, based on our channel checks, we don't rule out the possibility that Apple could introduce a new lighting cable for its mobile devices. We are less convinced that type C connectors will be adopted by Apple mobile devices given the mechanical design difference, more complicated supply chain management, and bigger market impact.

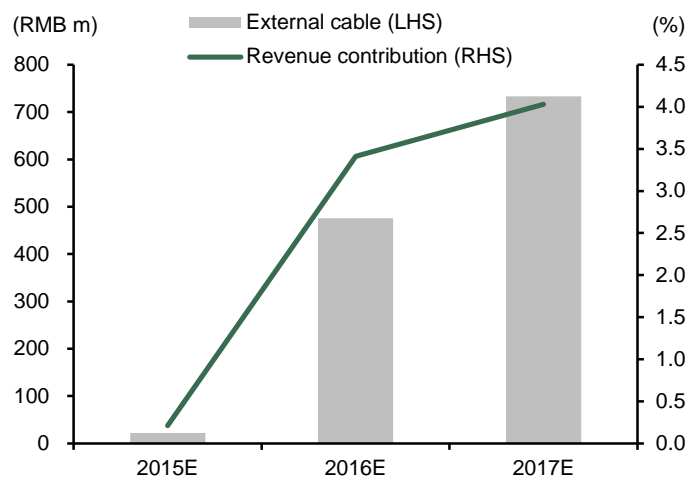
Assuming Apple adopts type C connector design for all its NB models (including *Macbook Air* and *Macbook Pro*) and the potential large-size *iPad* models in FY16, we forecast Luxshare's incremental revenue from supplying external cable to Apple will reach RMB476m in FY16 and RMB733m in FY17, representing around 3% and 4% of total revenue.

Exhibit 26: Power cord order allocation between Luxshare and peers



Source: BNP Paribas assumptions

Exhibit 27: Revenue contribution from Apple external cable is increasing



Source: BNP Paribas estimates

Continued share gain at lighting cable for iPhone and iPad

Lightning cable is a proprietary computer bus and power connector created by Apple to replace prior dock connector and to connect Apple mobile devices to host computers, external monitors, cameras, USB battery chargers and other peripherals. The application currently includes the iPhone, iPad 4, iPod Touch 5, iPad mini, and iPod Nano 7. Luxshare provides the connector assembly service and ships to Apple's EMS partners such as Hon Hai and Pegatron (4938 TW). Notably, the connector is consigned by Apple.

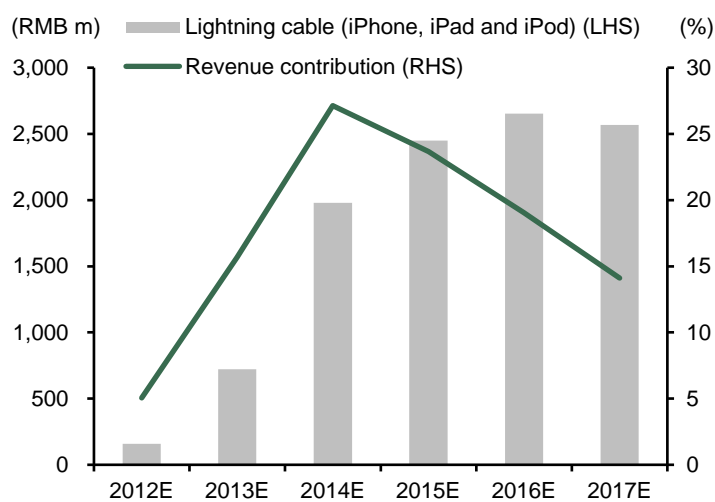
Luxshare has been part of Apple's lighting cable supply chain since 4Q12 for the iPhone 5, and we estimate its order allocation at 25-30% currently. In view of the competition from Hon Hai and Foxlink, ASPs have declined each year over the past three years with a 3-5% price erosion per quarter. We think Luxshare will act as a second source and enjoy 30-35% allocation in the next 1-2 years. We forecast the revenue contribution mix from lightning cable will decline gradually over FY15-17 from the combination of market share gains and continued ASP erosion.

Exhibit 28: Lightning cable can support different Apple devices



Source: Apple

Exhibit 29: Revenue contribution from lightning cable



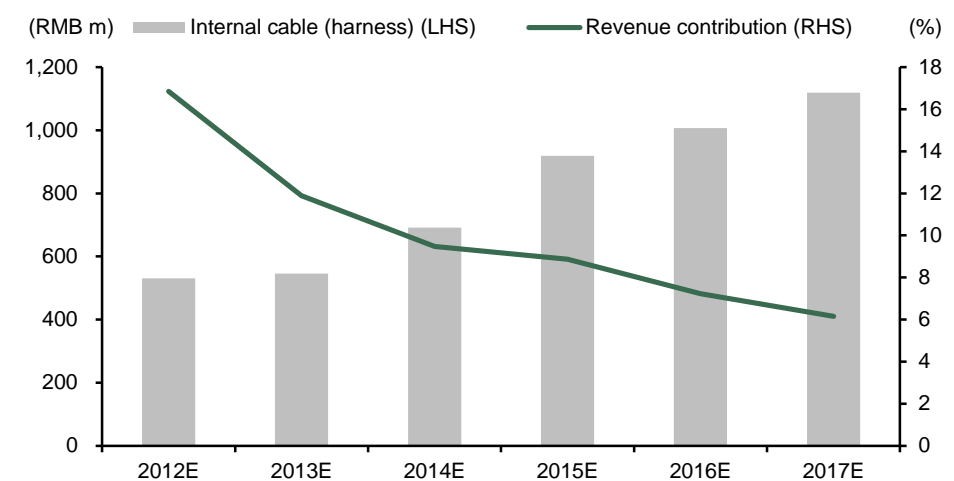
Source: BNP Paribas estimates

Stable share at internal harness for NB and AIO PC

We think one of Luxshare's core skills is its know-how in PC internal cable (harness). The production of internal harness is more difficult than the production of external cable/connector, due to: (1) more importance to the device, (2) more complicated design especially the improving spec, such as higher resolution, and (3) advanced cable material like micro coaxial cable, versus normal external cable's shielded twist pair (STP). Internal harness has a much higher entry barrier as it requires stability and consistent performance. Any failure on internal cable will cause the device to malfunction and can't be replaced as easily as external cables.

Apple is the major customer for internal cable since the launch of the *iPad* in FY09. We forecast Luxshare to have 50-55% allocation at Apple's *Macbook* and *iMac* products with an average dollar value per unit reaching USD15-20 for Luxshare, much higher than non-Apple NB and desktop's USD10-15. Nevertheless, as discussed previously, the new design of type C simplifies the internal PC/NB design, which should decrease the dollar value per unit gradually. Net-net, we forecast revenue growth of Luxshare's PC connector should decelerate in the longer term.

Exhibit 30: Internal cable revenue growth will gradually decelerate for Luxshare



Source: BNP Paribas estimates

Exhibit 31: Total dollar value per Macbook Air for Luxshare

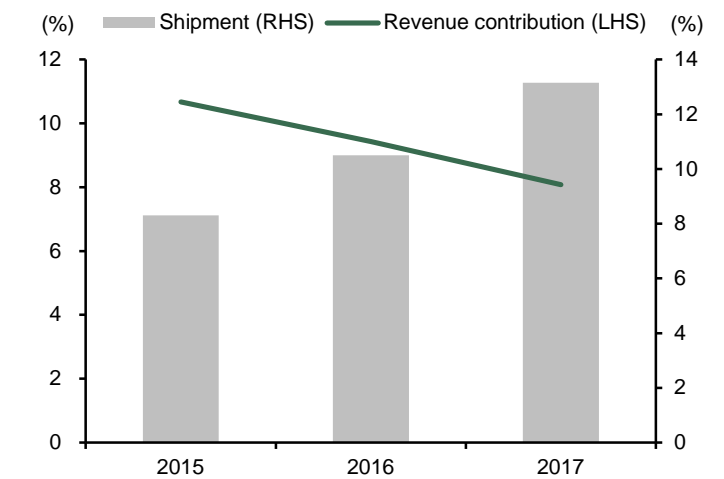
Internal harness	ASP (USD)
Antenna related cable	2-3
I/O port cable	0.5-1
Power Port wire	0.5-1
EDP (Embedded display port)	4-5
FFC (small portion)	1-2
Others (ex. sensor cable, camera cable)	5-6
Total overall	13-18

Source: BNP Paribas estimates

Sole supplier for *iWatch* wireless charging module since FY15

Apple introduced *iWatch* in 4Q14, and Luxshare has been the sole supplier for its wireless charging module since 2015. For the first time, the *iWatch* offers tightly coupled, magnetic inductive charging, although it still requires a cord. The technology design is probably Apple's, but the fact that Luxshare is the sole supplier is evidence of a close partnership between the two companies. Our industry checks suggest that *iWatch* shipments could reach 8m-9m units in FY15, which is below market expectations of 20m units per year. Given *iWatch*'s much smaller scale than that of the *iPhone*, we believe Luxshare could remain the sole supplier of its wireless charging module over the next two to three years.

Exhibit 32: Wireless charging module shipment and sales contribution



Source: BNP Paribas estimates

Exhibit 33: Luxshare is sole supplier for *iWatch* wireless charging module

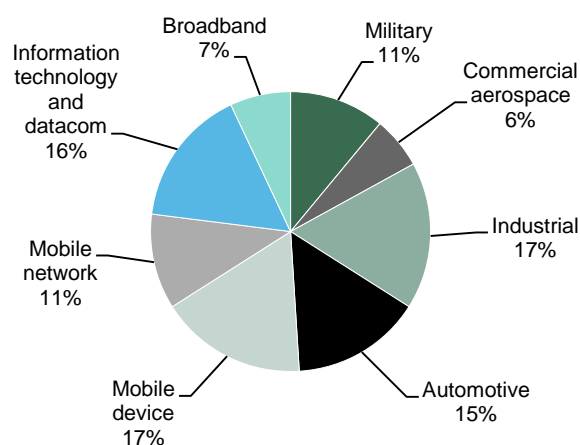


Source: ifixyou

Competition landscape: Leading position continues

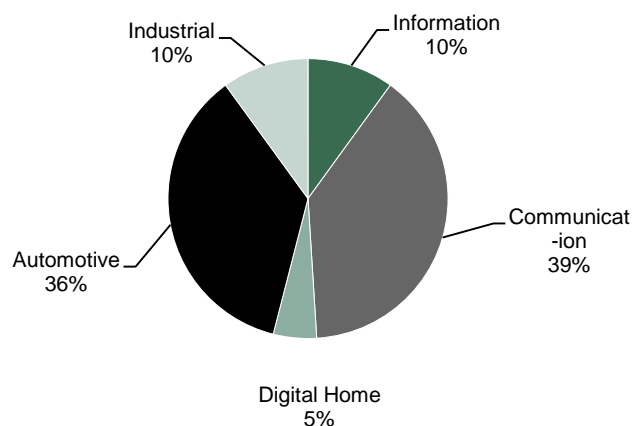
According to Huidian Research, Luxshare was the No 10 cable and connector player globally in FY13. Although overseas peers should offer competitive technology, many of them focus more on the non-consumer electronics segment due to profitability concerns. Taking into consideration the business model, customer pool and focus area, the key competitors can be narrowed down to <10 listed players and many smaller players who have the ability to provide lower end connector assembly service. Overall, we think Luxshare can maintain its leading position in consumer electronics on better client relationship, expertise, and production scale.

Exhibit 34: Amphenol's FY14 revenue mix



Source: Amphenol Company data

Exhibit 35: JAE's 2013 connector business mix



Source: JAE Company data

Type C connector: Foxlink, JAE, and Lotes

So far, only four qualified players, Luxshare, Foxlink, JAE and Lotes, are certificated to conduct Type C cable and connector production. Among these names, we think Luxshare's major competitor is Foxlink as JAE's directional strategy is to focus more on the non-consumer electronics market.

Our view is that Luxshare will benefit from potential type C connector demand, and it should enjoy a certain level of market share (30-40%), especially within the first two years of the new type C connector being on the market. Note that, Foxlink's connector business accounts for a smaller portion of its total sales as it has gradually shifted focus to the EMS and distribution business in the past few years to pursue further top-line growth.

Apple business: Foxlink, Hon Hai, Fujikura, Longwell (6290 TW), Volex (not-listed)

Luxshare shares Apple orders mainly with Foxlink, Hon Hai and Fujikura (5803.JP). We note Hon Hai and Foxlink have much bigger revenue size due to their EMS business, and cable/connector accounts for a smaller portion of total sales. Meanwhile, internal cable only represents a small portion of Fujikura total sales.

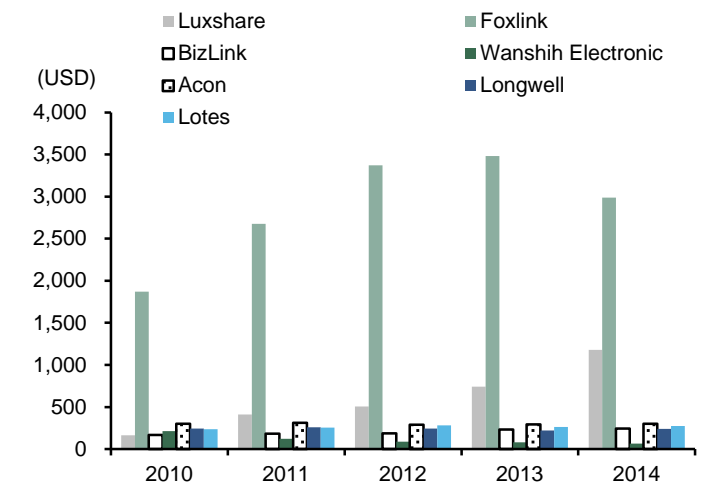
Overall, we expect no significant share gains for the lightning cable and internal cable business from Apple. Although we expect Luxshare to be a second supplier source continuously, we believe Luxshare can maintain a certain level of allocation for Apple products given Apple's diversification strategy and Luxshare's know-how in internal cable area.

As discussed previously, the new type C cable and connector can replace existing Apple NB power cord. Therefore, Luxshare's potential breakthrough suggests that it will gain share at the expense of existing power cord suppliers. Longer term, we think Luxshare will be one of the main suppliers of Apple type C connectors.

Other handset and PC connector and cable business: Bizlink (3665 TW), Wanshih Electronic (6134 TW), Acon (5491 TW)

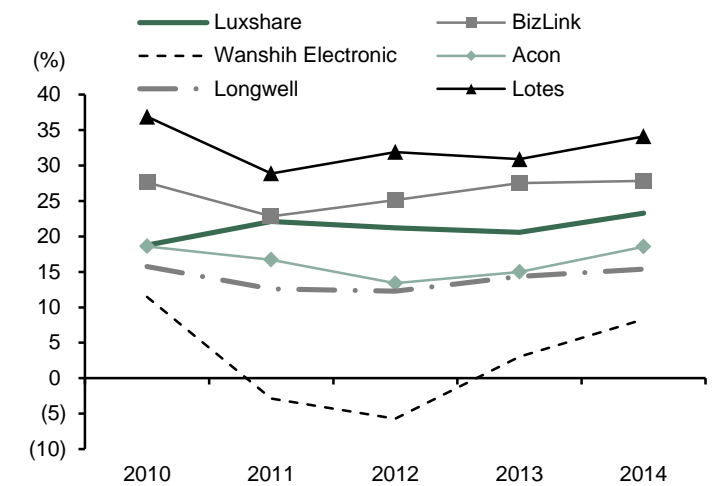
Luxshare has a much better production scale than its peers, which we believe will result in better margins and cost efficiency. We cannot rule out the possibility of Luxshare's peers qualifying to become type C connector vendors in the future, but we think they will mainly compete with Luxshare at the lower end area.

Exhibit 36: Luxshare has better scale than cable assembly peers



Sources: TEJ; Bloomberg

Exhibit 37: Luxshare maintains decent gross margins compared with peers



Sources: TEJ; Bloomberg

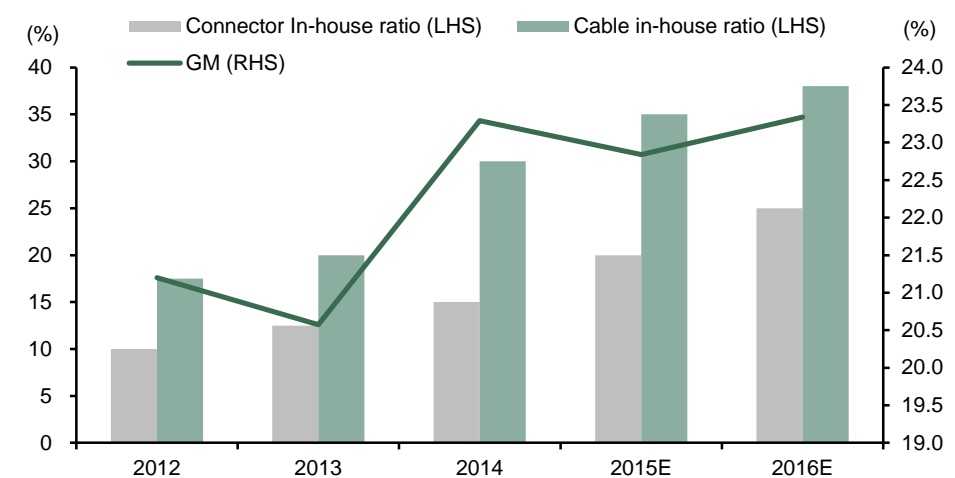
Continued vertical integration to secure margins

Luxshare gradually increased its in-house supply ratio for both connectors and cables over the past two years. Meanwhile, given the increasing FPC usage in Apple products, Luxshare also acquired an FPC company in FY12. We expect Luxshare to continue its M&A strategy in order to extract synergies from vertical integration, which should be positive for overall margins. Besides, its long-term strategy to offer different products, such as cables, connectors, antenna, FPC and EMS services, would also fulfil customers' one-stop-shopping requirement.

Increasing in-house supply ratio to stabilise margin trend

Luxshare currently supplies 20-25% and 30-40% of connectors and cables in-house, up from below 20% in FY12. We believe Luxshare will keep its in-house supply ratio below 50% to better manage potential inventory risk, while we also see the increasing in-house ratio as a positive factor for margins in the longer term.

Exhibit 38: Increasing in-house supply ratio a positive for GM



Sources: Luxshare; BNP Paribas estimates

Potential M&A and strategic investment

Luxshare has continuously acquired companies in order to expand its portfolio and pursue better production scale. We think current management will maintain this strategy, to stimulate top-line growth and pursue a higher level of vertical integration. Meanwhile, aiming for greater synergies, Luxshare's strategic investment targets could broaden, from component makers to cable/connector-related retail players, in our view. However, we think this taking on more business units could stretch its management's talents in the long run.

Exhibit 39: Historical M&A activities since IPO

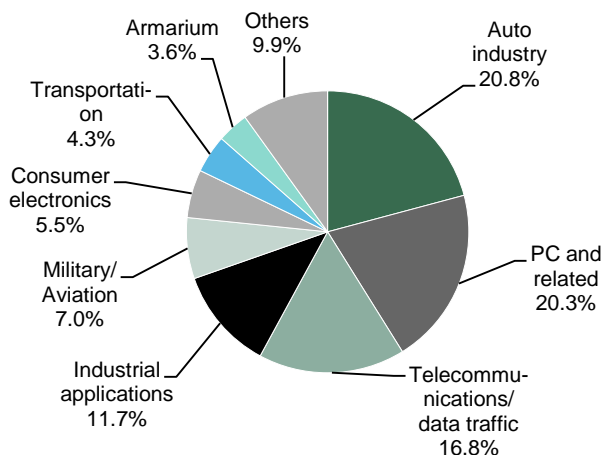
Time	M&A information
Jan-11	Acquired Boshuo Co.,Ltd
Jan-12	Acquired Shenzhen Science Expert Industrial Co., Ltd. (automotive-related business)
May-12	Acquired Dongguan Xuntao Electronics
Jun-12	Acquired Fujian Wiring Systems
Sep-12	Acquired ZhuHai All-Winner FPC Co.,Ltd. (FPCB business)
Jan-14	Acquired German company "SUK Kunststofftechnik GmbH"
Mar-14	Acquired Toyoshima Electronic Technology Suzhou (Cable business)

Source: Luxshare

New opportunities from server and auto markets

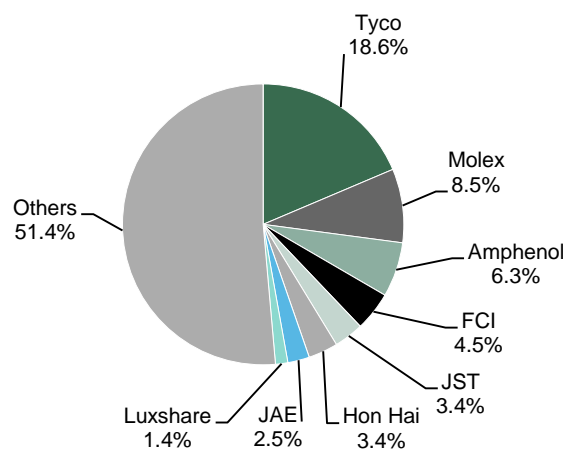
Luxshare has gained volume market share over the past seven years on a significant breakthrough into Apple products. As a leading supplier in the consumer electronics market, Luxshare has also entered server and automotive connector segments in search of long-term growth. Based on Huidian Research data, automotive, PC, and telecommunication are the three largest sub-sectors and represent 21%, 20%, and 17%, respectively, of the total connector market.

Exhibit 40: Connector market mix by application



Sources: Huidian Research (2013)

Exhibit 41: Volume market share in FY13

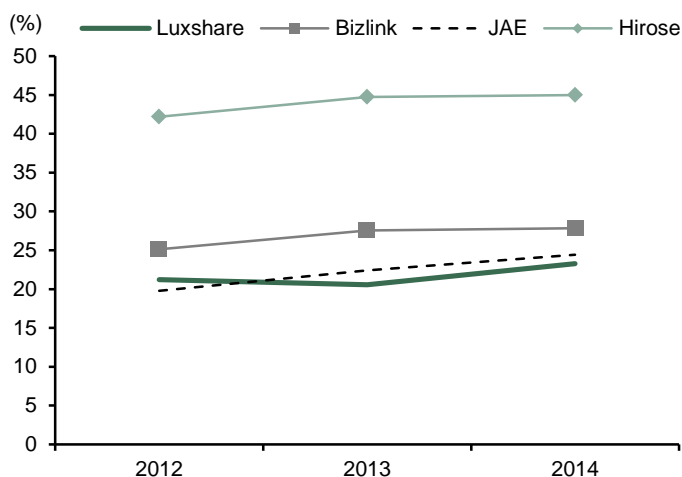


Sources: Huidian Research

Greater upside potential from a low base and favourable mix

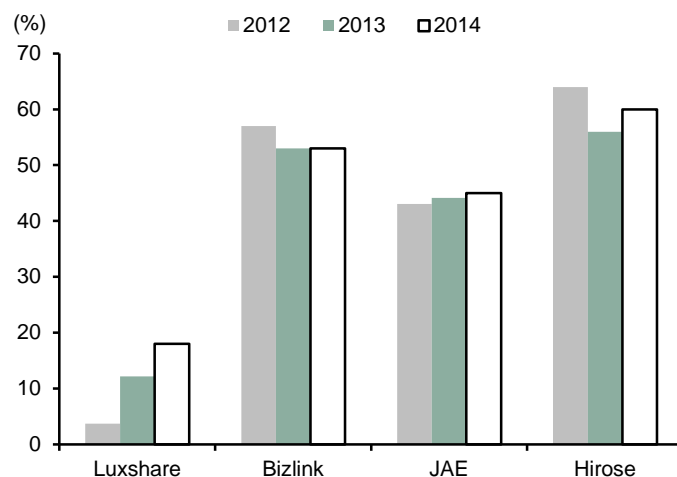
We expect Luxshare's strategy of entering new markets to ensure future growth and provide further upside to margins. Connectors in automotive and server-related businesses are usually more profitable but require a longer certification period. Bizlink (3665 TW), Hirose (6806 JP) and JAE (6807 JP) report that more than 40% of their revenue is from non-consumer sectors. We expect the favourable product mix to improve margins at Luxshare, as the sales contribution from non-consumer and non-PC sectors should increase from its current low base.

Exhibit 42: Gross margin comparison among connector peers



Sources: Bloomberg; company data

Exhibit 43: Non-consumer sales contribution comparison

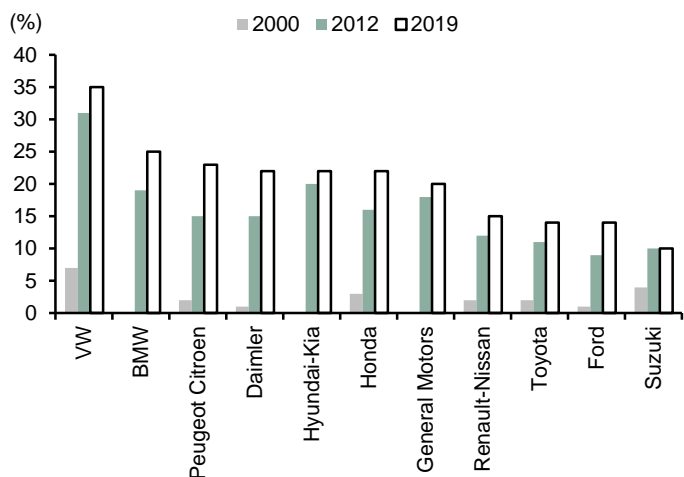


Sources: Bloomberg; company data

As of FY14, Luxshare generated less than 16% of revenue from automotive and servers, but we expect their share of sales to gradually increase in the long run, for the following reasons: (1) increasing adoption of domestic suppliers for China auto production; and (2) teaming up with tier-one players in each sector. Although its automotive connector should be limited to entertainment audio (external connector) for now, we expect it to step into advanced automotive connectors in the next three to five years, on the back of its continued R&D efforts. In addition, we think

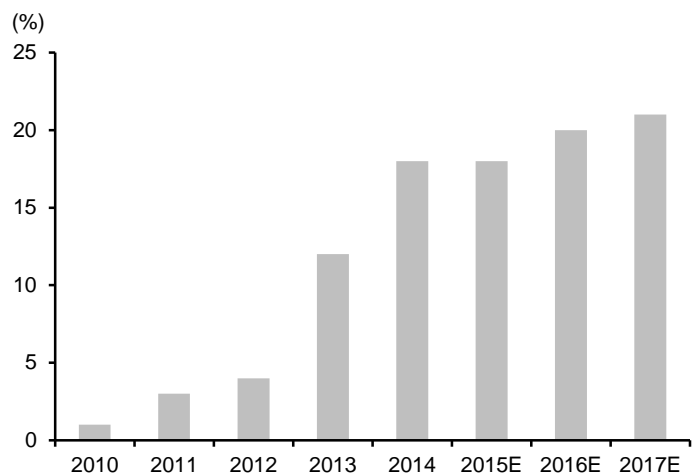
Luxshare's strategy to partner with a tier-one player in each sector should secure strong sales growth.

Exhibit 44: Increasing auto production in China



Source: Joyson Electronics

Exhibit 45: Non-PC/consumer revenue to increase



Sources: Luxshare; BNP Paribas estimates

Exhibit 46: Luxshare has partnered with leading players

Sector	Partnership
Consumer electronics	Apple, MSFT, Samsung
NB and PC	Lenovo, Dell, HP
Server	Huawei and Lenovo
Automotive	China local brands like VW China

Source: Luxshare; BNP Paribas estimates

Strong ROE from higher net margin

Dupont analysis: higher ROE than peers

We use a DuPont analysis to evaluate the level of ROE Luxshare could generate from its business model, and compare this with the returns of major peers. Our assessment suggests that Luxshare is generating stronger returns than Asian peers based on its better margins. Luxshare's asset turnover is lower but its net margin is higher, which is the key driver for its ROE expansion.

Exhibit 47: ROE comparison with surveillance peers

Company name	BBG code	Net margin			Asset turnover			Leverage ratio			ROE		
		2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E
		(%)	(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	(%)
Luxshare	002475.SZ	8.6	10.2	10.9	0.9	1.0	1.2	2.0	1.9	1.8	15.6	19.5	23.1
Hon Hai	2317.TW	3.1	3.3	3.1	1.7	1.8	1.9	2.5	2.4	2.4	13.3	14.0	13.9
Foxlink	2392.TW	2.0	2.1	2.1	1.4	1.6	1.7	2.3	2.4	2.6	6.1	8.3	9.3
JAE	6807.JP	8.2	9.8	10.1	1.1	1.1	1.1	1.7	1.8	1.6	15.9	18.7	17.3
Tyco	TYC.US	9.6	9.3	9.6	0.9	0.8	0.9	2.5	2.8	2.5	21.2	20.8	22.0
Amphenol	APH.US	13.5	13.8	14.2	0.8	0.9	0.9	2.4	2.0	1.9	24.5	24.2	23.3
BizLink	3665.TW	8.2	8.8	9.1	1.1	1.3	1.4	1.6	1.6	1.6	14.9	17.3	19.3

Sources: Bloomberg consensus estimates, BNP Paribas estimates for Luxshare and Hon Hai

Net profit margin – This is the most important driver of Luxshare's ROE expansion. We forecast net margin of around 10-11% over the next two years, higher than that of overseas surveillance camera peers, as a result of continued vertical integration and a favourable product mix.

Financial leverage – Luxshare ranks in the middle of all the companies included in this comparison. Notably, Hon Hai and Foxlink delivered higher asset turnover as they should have more exposure to EMS business.

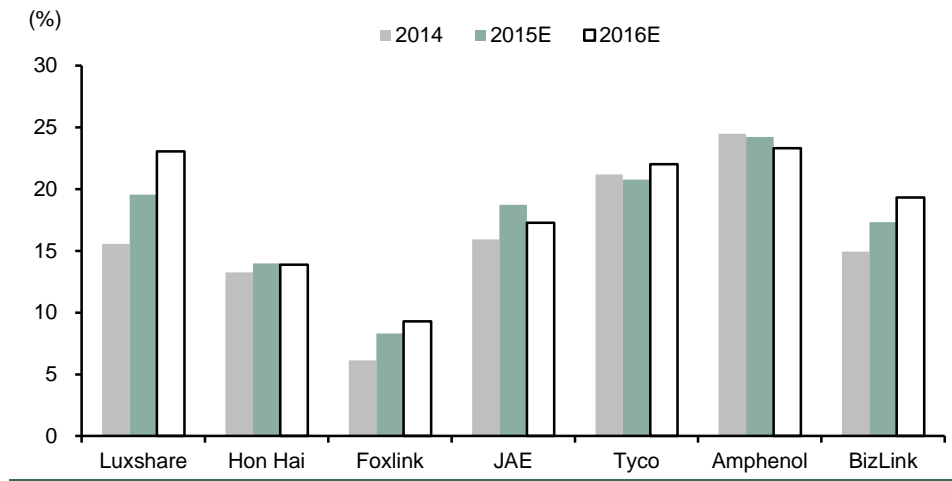
Leverage ratio – We don't think this is a clear driver of ROE expansion. Luxshare's leverage ratio (total asset/total equity) has been declining on the company's strategy to offer a higher value add product without asset expansion.

Exhibit 48: Historical ROE performance

	2010	2011	2012	2013	2014	2015E	2016E	2017E
Net margin (%)	11.5	10.1	8.4	7.4	8.6	10.2	10.9	11.3
Asset turn (x)	0.8	1.0	0.9	0.9	0.9	1.0	1.2	1.3
Equity multiple (x)	1.2	1.4	1.5	1.8	2.0	1.9	1.8	1.7
ROE (%)	11.1	13.2	11.1	12.0	15.6	19.5	23.1	24.9

Sources: Luxshare; BNP Paribas estimates

Exhibit 49: ROE comparison



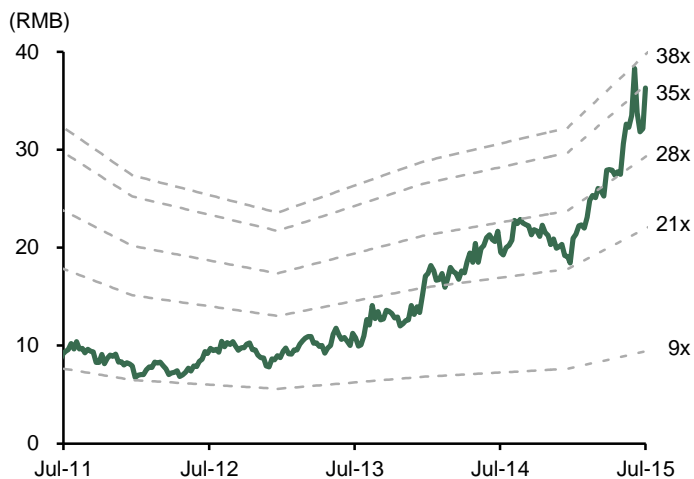
Sources: Luxshare; Bloomberg consensus; BNP Paribas estimates (for Luxshare)

Valuation: Deserves a premium on strong earnings growth prospects

Initiate coverage at BUY with a target price of RMB45

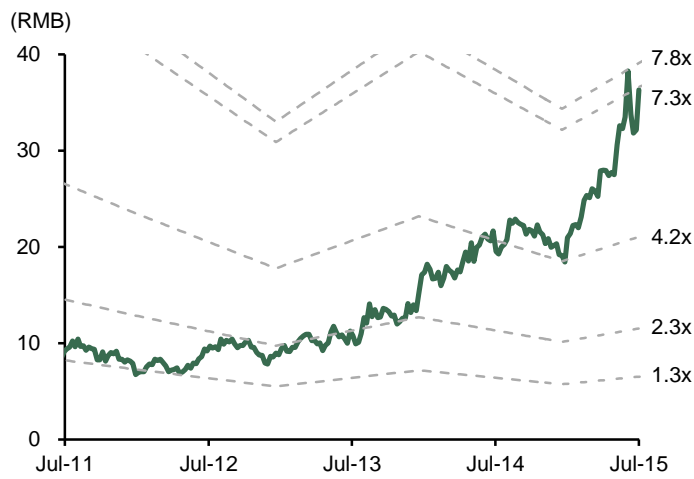
We initiate coverage of Luxshare with a BUY rating and TP of RMB45, implying 18.5% upside potential. Luxshare is the leading connector supplier in the consumer electronics industry globally and we believe stands to benefit from potential type C demand. Continued market share gain at Apple and the new opportunity from automotive/server connectors should also drive overall growth. Luxshare's efforts on vertical integration, as well as better production scale, should set it apart from existing competitors and newcomers, and enable the company to generate better revenue growth and stable margins.

Exhibit 50: 12 month forward P/E



Sources: Bloomberg; BNP Paribas estimates

Exhibit 51: 12 month forward P/B



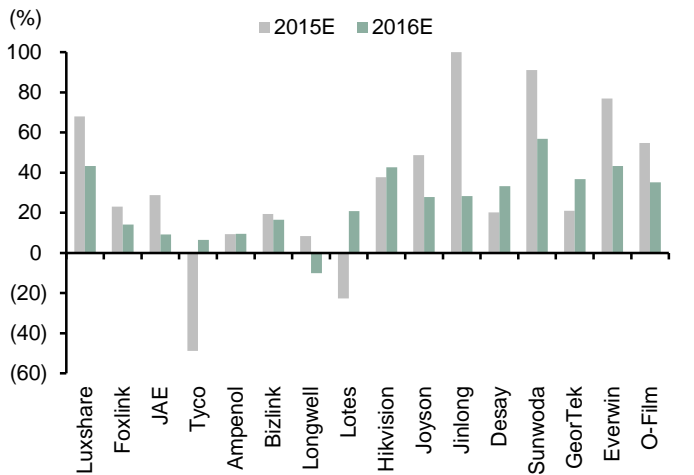
Sources: Bloomberg; BNP Paribas estimates

Why do we think Luxshare deserves an 0.85x PEG?

Our TP of RMB45 is based on 0.85x FY16E PEG (37x FY16E P/E), the average of global and China A share peers' range of 0.3-2.3x PEG. We think the target multiple is justified, supported by the following:

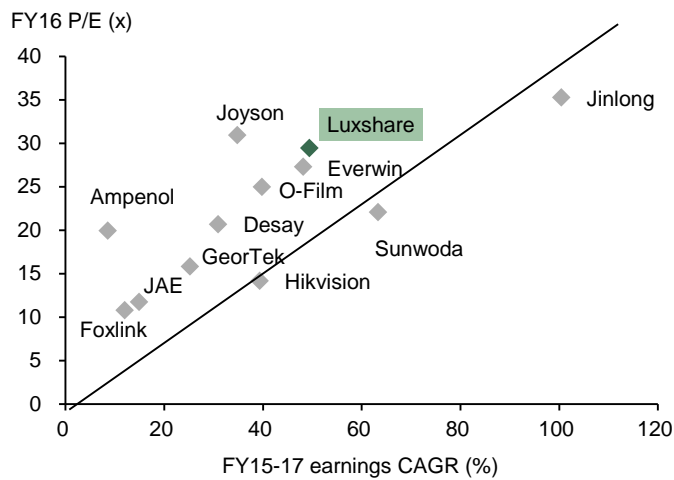
Strong earnings growth and ROE performance: On the back of type C connector demand and market share gain at Apple, we expect the company to grow its revenue and earnings by 42%/68% and 35%/43%, respectively in FY15-16. The company's impressive net margin also improves ROE to 26% in FY17, much better than 18% in FY14. The risk-reward profile does not appear demanding among A-share peers.

Exhibit 52: FY15-16E earnings growth comparison



Sources: Bloomberg consensus; BNP Paribas estimates for Hikvision

Exhibit 53: FY16E P/E vs FY15-17E EPS CAGR



Sources: Bloomberg consensus; BNP Paribas estimates for Hikvision

Leading market position and the only connector player in A-share market: With 40% free flow, Luxshare is the only listed connector player in China's A-share

market. We think the combination of its solid fundamental performance and current market dynamics deserve a valuation premium.

Exhibit 54: Valuation comparison

Name	BBG code	CCY.	Price (LC)	Mkt cap (USD m)	Earning growth		EPS		P/E		P/BV		ROE		PEG		Sales growth			
					2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
					(%)	(%)	(LC)	(LC)	(x)	(x)	(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)
Luxshare	002475 CH	RMB	38.0	7,637	68	43	0.85	1.22	44.8	31.3	8.6	6.9	21.0	24.4	0.7	0.7	42	35		
Foxlink	2392 TT	TWD	53.9	890	23	14	4.37	5.00	12.3	10.8	1.0	0.9	8.3	9.3	0.5	0.8	15	12		
JAE	6807 JP	JPY	2,914.0	2,178	29	9	222	243	13.1	12.0	2.3	2.0	18.7	17.3	0.5	1.3	9	6		
Tyco	TYC US	USD	37.7	15,881	(49)	7	2.19	2.33	17.2	16.2	3.5	3.4	20.8	21.9	(0.3)	2.3	(3)	4		
Ampenol	APH US	USD	54.5	16,839	9	10	2.45	2.72	22.2	20.0	5.1	4.3	24.0	23.1	2.4	2.1	5	6		
Bizlink	3665 TT	TWD	176.0	493	19	16	8.46	9.90	20.8	17.8	3.6	3.4	17.3	19.3	1.1	1.1	12	13		
Lotes	3533 TT	TWD	107.0	322	(23)	21	8.90	10.77	12.0	9.9	1.2	1.1	10.0	12.0	(0.5)	0.5	(4)	8		
Hikvision	002415 CH	RMB	32.4	21,231	38	43	1.60	2.28	20.2	14.2	6.5	4.8	32.3	33.8	0.5	0.3	47	42		
Joyson	600699 CH	RMB	34.1	3,497	49	28	0.81	1.00	42.3	34.0	6.3	5.5	15.6	16.6	0.9	1.2	28	19		
Jinlong	300032 CH	RMB	33.2	3,619	339	28	0.71	0.94	46.8	35.2	10.0	8.0	23.1	24.4	0.1	1.2	238	39		
Desay	000049 CH	RMB	50.8	1,679	20	33	1.41	1.93	36.0	26.3	10.5	7.9	32.6	32.5	1.8	0.8	29	30		
Sunwoda	300207 CH	RMB	21.8	2,211	91	57	0.61	0.99	35.8	22.1	7.7	6.2	18.2	22.7	0.4	0.4	81	42		
GeorTek	002241 CH	RMB	28.8	7,081	21	37	1.34	1.82	21.5	15.8	4.4	3.6	21.0	22.7	1.0	0.4	28	29		
Everwin	300115 CH	RMB	45.6	4,082	78	44	0.93	1.35	48.8	33.7	8.2	6.8	18.3	20.6	0.6	0.8	53	34		
O-Film	002456 CH	RMB	38.1	6,318	55	35	1.04	1.40	36.5	27.1	6.0	5.1	16.1	18.0	0.7	0.8	29	27		
Average China peers					50	27			27.6	21.1	5.5	4.5	19.7	21.0	0.6	0.8	40	33		

Priced 13 July 2015 (10 July 2015 for US stocks)

Sources: Bloomberg consensus; BNP Paribas estimates [Luxshare]

DCF suggests an even higher fair value: We also use DCF method to cross check our target price, and this suggests an even higher valuation of RMB46.2, based on a WACC of 7.8%, more conservative than Bloomberg data. We apply a terminal growth rate of 5% and a gradual margin decline.

Exhibit 55: Free cash flow analysis

(RMB m)	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	Terminal value
Revenue	10,354	13,932	18,191	22,739	27,968	33,562	39,603	45,940	52,371	58,656	
EBITDA	1,493	2,043	2,707	6,321	7,551	8,894	9,901	11,485	13,093	14,077	
Less: Changes in working capital	1,156	909	902	569	1,483	1,342	1,450	1,521	496	1,441	
Less: Capex	1,000	1,000	1,000	1,137	1,398	1,678	1,881	2,021	2,200	2,346	
Less: Tax	186	263	369	870	1,037	1,220	1,354	1,571	1,791	1,919	
FCF	-850	-129	437	3,745	3,634	4,653	5,216	6,372	8,606	8,371	8,371
Discount factor (%)	0.96	0.89	0.83	0.77	0.71	0.66	0.61	0.57	0.53	0.49	0.47
PV of FCF	-845	-137	329	2,882	2,595	3,083	3,206	3,634	4,554	4,110	155,597

Source: BNP Paribas estimates

Exhibit 56: Our WACC assumption of 7.8% is more conservative than the Bloomberg estimate

Input	
WACC calculation	
Target capital structure (%)	
Debt to total capitalisation	10.0
Equity to total capitalisation	90.0
Debt to equity ratio	11
Cost of equity (%)	
Risk-free rate (BNPP)	3.6
Market risk premium (BNPP)	6.9
Levered Beta (Bloomberg) (x)	0.7
Cost of equity (%)	8.3
Cost of debt (%)	
Cost of debt	5.3
Taxes	14.5
After tax cost of debt	4.5
WACC	7.8

Source: BNP Paribas estimates; Bloomberg

Exhibit 57: Our DCF method suggests a RMB46/share valuation

Output	
Enterprise value	
Present value of free cash flow (RMB)	23,410
Terminal value (RMB)	328,971
Discount factor (%)	0.47
Present value of terminal value (RMB)	155,597
% of enterprise value	87%
Enterprise value (RMB)	179,007
Less: Total debt (RMB)	607
Plus: Cash and cash equi. (RMB)	7,200
Net debt (RMB)	-6,593
Implied equity value (RMB)	185,600
Outstanding shares (RMB)	4,016
Implied share price (RMB)	46.2

Source: BNP Paribas estimates

Financial analysis

1H15 preview

Luxshare's 1Q15 sales reached RMB1,811m, down 17% q-q (up 34% y-y) with gross margin down to 22.9%, from 24.4% in 4Q14, on an unfavourable product mix and smaller scale. We expect 2Q15 revenue to grow 19% y-y to RMB2,207m, on seasonality and Apple products momentum. Our 2Q15E EPS of RMB0.16 is up 28% q-q. Luxshare will likely release 1H results in late July, as in previous years.

A positive FY15 outlook, but we are conservative on top-line growth

For 2015, we forecast revenue will grow 42% y-y, driven by new Apple product launches, market share gains and lukewarm type C demand. However, we expect FY15 gross margins to contract 30bp y-y to 23% on continued ASP erosion and a lower loading rate on the Apple Watch product line. Overall, our FY15 net income estimate of RMB1,059m is lower than the Bloomberg consensus estimate on a lower top line assumption. Management previously guided FY15 sales to reach USD200m (RMB1.2b), which is too optimistic in our view.

Exhibit 58: Quarterly P&L

(RMB m)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	2014	2015E	2016E	2017E
Sales	1,356	1,850	1,910	2,180	1,811	2,207	2,748	3,588	2,655	2,948	3,693	4,635	7,296	10,354	13,932	18,191
Gross profit	247	443	476	533	415	490	628	848	605	679	857	1,092	1,699	2,381	3,233	4,267
Op. profit	118	247	282	268	184	238	351	500	306	355	484	658	915	1,273	1,803	2,457
Pre-tax profit	153	198	287	225	188	238	351	500	308	357	486	660	864	1,277	1,811	2,457
Net income	90	148	193	200	153	196	292	419	255	297	407	557	630	1,059	1,517	2,048
EPS	0.11	0.18	0.23	0.24	0.12	0.16	0.23	0.34	0.20	0.24	0.33	0.45	0.76	0.85	1.22	1.64
Margins (%)																
Gross margin	18.2	24.0	25.0	24.4	22.9	22.2	22.9	23.6	22.8	23.0	23.2	23.6	23.3	23.0	23.2	23.5
Op. margin	8.7	13.3	14.7	12.3	10.1	10.8	12.8	13.9	11.5	12.0	13.1	14.2	12.5	12.3	12.9	13.5
Pre-tax margin	11.3	10.7	15.0	10.3	10.4	10.8	12.8	13.9	11.6	12.1	13.2	14.2	11.8	12.3	13.0	13.5
Net margin	6.7	8.0	10.1	9.2	8.4	8.9	10.6	11.7	9.6	10.1	11.0	12.0	8.6	10.2	10.9	11.3
Change (q-q %)																
Sales	(12)	36	3	14	(17)	22	25	31	(26)	11	25	25				
Gross profit	(23)	80	7	12	(22)	18	28	35	(29)	12	26	27				
Op. profit	(34)	109	14	(5)	(31)	30	47	43	(39)	16	36	36				
Pre-tax profit	(29)	29	45	(21)	(17)	27	47	43	(38)	16	36	36				
Net income	(25)	64	30	4	(24)	28	49	44	(39)	16	37	37				
Change (y-y %)																
Sales	73	84	51	42	34	19	44	65	47	34	34	29	59	42	35	31
Gross profit	63	123	74	65	68	10	32	59	46	39	36	29	80	40	36	32
Op. profit	71	123	73	50	55	-3	25	87	67	49	38	32	75	39	42	36
Pre-tax profit	137	79	87	5	23	20	22	122	64	50	39	32	59	48	42	36
Net income	99	99	91	67	69	32	51	110	67	52	40	33	85	68	43	35

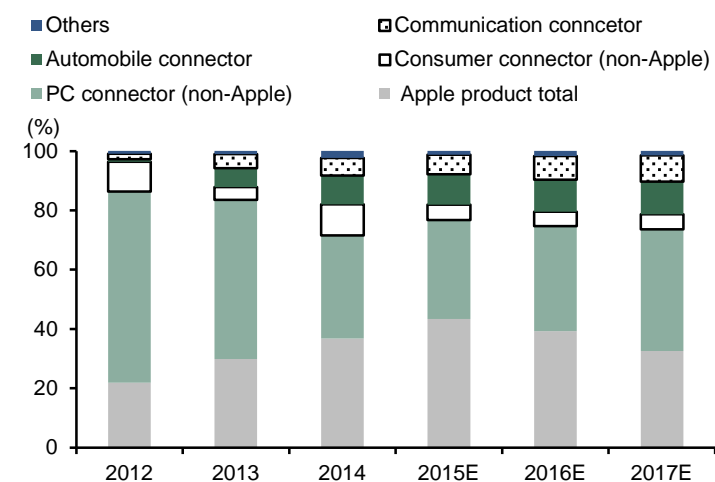
Sources: Luxshare; BNP Paribas estimates

Exhibit 59: Earnings comparison

	2015E			2016E		
	BNP	Cons	Diff.	BNP	Cons	Diff.
	(RMB m)	(RMB m)	(%)	(RMB m)	(RMB m)	(%)
Sales	10,354	10,885	(5)	13,932	14,879	(6)
Gross profit	2,381	2,504	(5)	3,233	3,407	(5)
Operating profit	1,273	1,328	(4)	1,803	1,946	(7)
Net profit	1,059	1,097	(3)	1,517	1,583	(4)
Margin (%)						
Gross margin	23.0	23.0		23.2	22.9	
Operating margin	12.3	12.2		12.9	13.1	
Net margin	10.2	10.1		10.9	10.6	

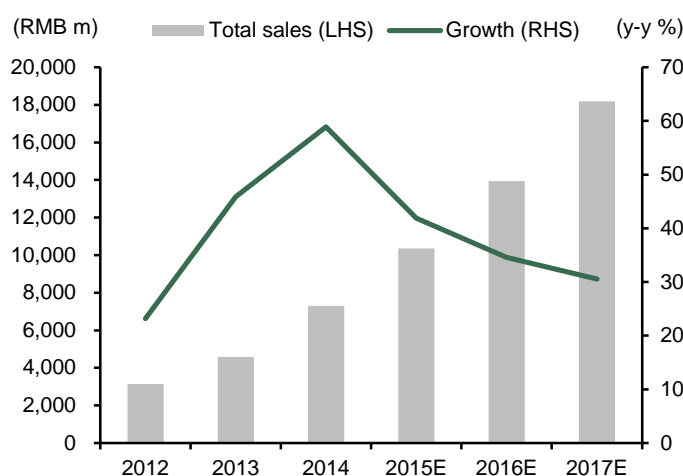
Sources: Bloomberg consensus; BNP Paribas estimates

Exhibit 60: Revenue mix



Sources: Company data, BNP Paribas estimates

Exhibit 61: Annual sales and sales growth

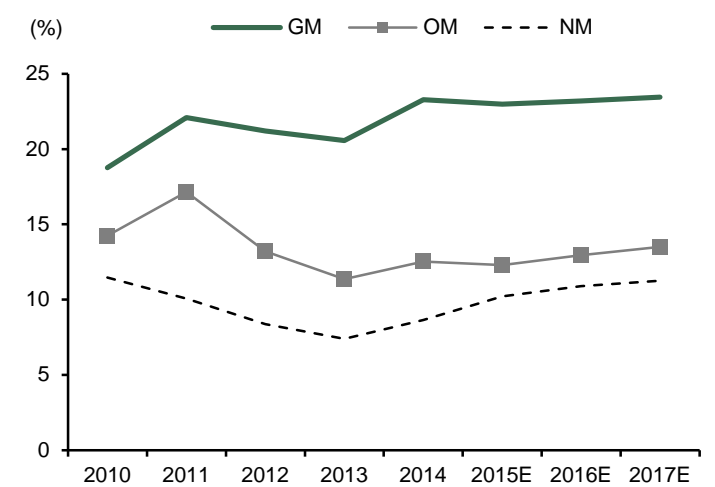


Sources: Company data, BNP Paribas estimates

Robust earnings growth

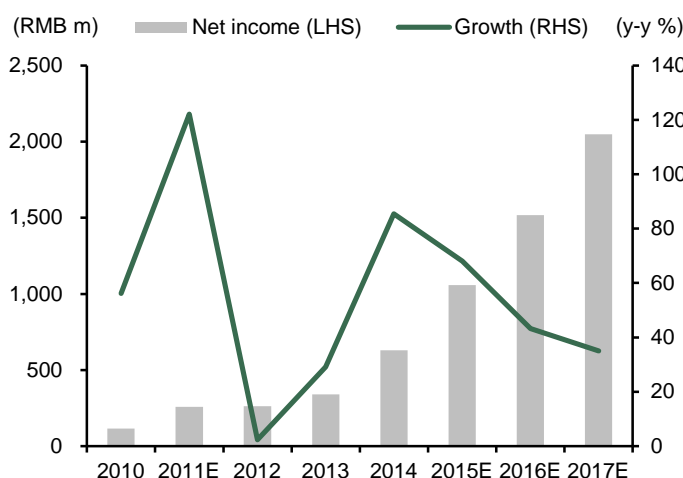
We expect FY15 gross and operating margins to decline on an unfavourable product mix, but we expect margins to expand in FY16-17, on continued vertical integration, new type C demand and the increasing contribution from automotive and server areas.

Exhibit 62: Margin trend



Sources: Company data; BNP Paribas estimates

Exhibit 63: Net income continues to increase



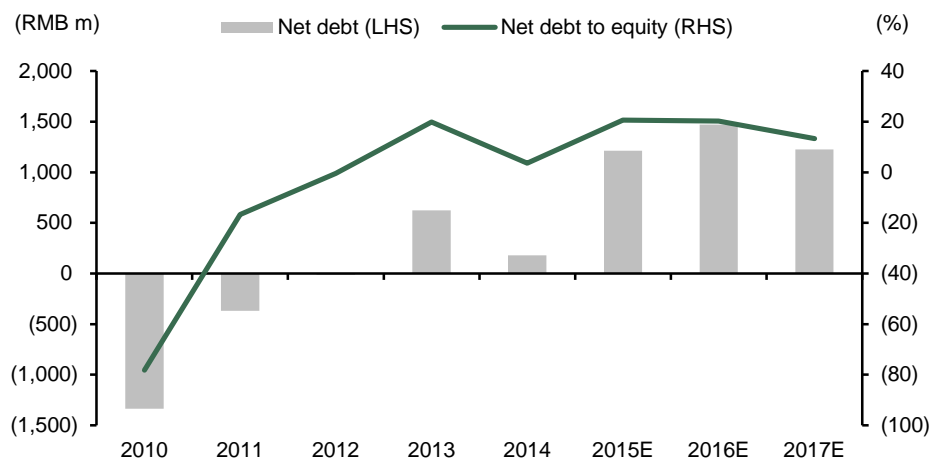
Sources: Company data; BNP Paribas estimates

Healthy balance sheet and cash flow

We expect Luxshare to see negative free cash flow in FY15-16 on continued R&D expenses and the change in working capital. However, driven by stronger earnings

growth, we expect it to turn free cash flow positive in FY17, which would also improve the net debt to equity ratio. Overall, we think Luxshare's balance sheet remains healthy.

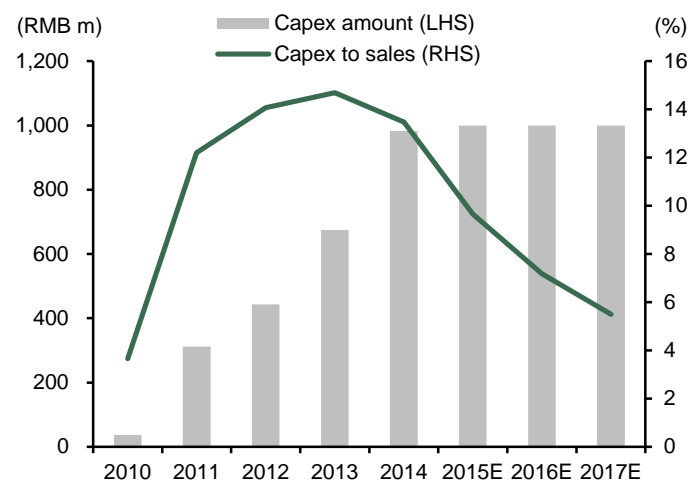
Exhibit 64: Net cash and net debt to equity ratio



Sources: Luxshare; Wind; BNP Paribas estimates

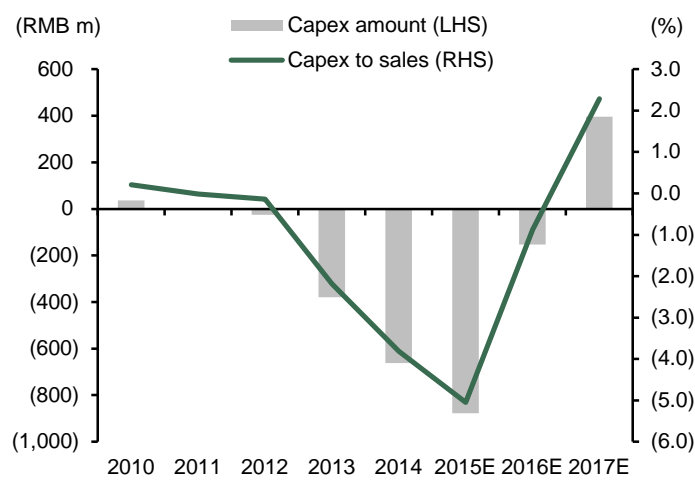
Luxshare did not provide clear capex guidance, but expects capex to stabilise in the near term. We model RMB950m for the next three years each and we think the major purpose will be continued R&D in new businesses, including antenna, acoustic, FPC and automotive/server connector fields. On the other hand, we expect Luxshare to lower its dividend payout ratio to around 10% on a weaker cash flow performance in FY15-16E. Notably, we don't rule out the possibility of a fund raising plan in the next one to two years, given its cash net outflow in FY15-16E.

Exhibit 65: Capex remains healthy



Sources: Luxshare; BNP Paribas estimates

Exhibit 66: FCF to turn positive in FY17E



Sources: Luxshare; BNP Paribas estimates

Sensitivity analysis

Exhibit 67: Earnings sensitivity

	FY15E			FY16E		
	Bear (%)	Base (%)	Best (%)	Bear (%)	Base (%)	Best (%)
Revenue growth	38	42	59	30	35	40
Implied PC Type C penetration	1	5	10	20	30	40
Gross margin	21	23	25	21	23.2	25
Net margin	7.9	10.2	12.7	8.4	10.9	13.3
Upside/downside	(23)	0	24.2	(23)	0	22

Source: BNP Paribas estimates

Better type C connector penetration offers more upside potential

We conduct a sensitivity analysis on type C penetration in the PC market, as we think type C penetration in PCs will pick up rapidly and Luxshare should benefit more on its expertise in cable. Under our base scenario, we expect type C connector penetration to reach 5% in the PC market, implying sales growth of 42% y-y in FY15E. Our sensitivity analysis suggests an additional 1% market share gain could provide 1-2% earnings upside in FY15E, based on our base-case scenario that gross margin would be maintained at 23%.

Gross margin on back-end and front-end sales

We also see potential earnings upside from a higher gross margin as a result of a better product mix and continued vertical integration. In FY15, an additional 1ppt on gross margin could contribute 3-8% earnings upside. However, we currently expect the gross margin to stabilise in FY15-17.

Exhibit 68: Sensitivity analysis on type C penetration in PC market and gross margin (FY15E)

2015E (RMB m)	Type C penetration				
	1%	3%	5%	7%	10%
	Top line growth				
(GM)	37%	39%	42%	44%	47%
21.0%	818	844	882	910	949
22.0%	904	931	971	999	1,041
23.0%	988	1,017	1,059	1,089	1,132
24.0%	1,074	1,104	1,148	1,179	1,224
25.0%	1,160	1,191	1,236	1,269	1,315

2015E	Type C penetration				
	1%	3%	5%	7%	10%
	Top line growth				
(%)	31%	39%	42%	44%	47%
21.0%	(23)	(20)	(17)	(14)	(10)
22.0%	(15)	(12)	(8)	(6)	(2)
GM 23.0%	(7)	(4)	0	3	7
24.0%	1	4	8	11	16
25.0%	10	12	17	20	24

Source: BNP Paribas estimates

Exhibit 69: Sensitivity analysis on type C penetration in PC market and gross margin (FY16E)

2016E	Type C penetration				
	20%	25%	30%	35%	40%
	Top line growth				
(GM)	30%	32%	35%	37%	40%
21.0%	1,169	1,207	1,254	1,308	1,355
22.0%	1,285	1,324	1,373	1,430	1,479
23.2%	1,423	1,464	1,517	1,576	1,629
24.0%	1,515	1,557	1,612	1,673	1,727
25.0%	1,630	1,674	1,731	1,795	1,851

2016E	Type C penetration				
	20%	25%	30%	35%	40%
	Top line growth				
(%)	30%	32%	35%	37%	40%
21.0%	(23)	(20)	(17)	(14)	(11)
22.0%	(15)	(13)	(9)	(6)	(2)
GM 23.2%	(6)	(3)	0	4	7
24.0%	0	3	6	10	14
25.0%	7	10	14	18	22

Source: BNP Paribas estimates

Risk to our call

Softer than expected top-line growth

We expect the potential softness in PC demand and consumer electronic products to be offset by market share gain in Apple and spec upgrades. We forecast FY15-17 sales growth of 42%, 35%, and 31% y-y. Slower than expected revenue growth, triggered by a weaker macro and end demand, would impact our earnings forecasts.

ASP erosion from market competition

Although Luxshare is one of the leading players in consumer electronics, we don't rule out the possibility that foreign peers turn more aggressive on pricing, which would drive down margins.

Market share loss at key customer

Luxshare has high market shares at Apple and Lenovo, especially at the internal cable business. Potential market share loss is a risk to our earnings forecasts.

Over customer centralization

Based on our forecast, Apple alone accounts for 44% of total sales in FY15, up from 37% in FY14, mainly due to the incremental gain from *iWatch* as well as lighting cable share gains. Client concentration is a potential risk.

Delayed type C market demand

Slower than expected type C connector progress and development would negatively impact Luxshare's earnings as we factor in a gradual type C demand pick-up from 2H15. We think the uncertainty in type C connector penetration is a risk.

Lower utilisation of in-house supply

Although Luxshare has gradually increased in-house supply, we don't rule out the potential risk of lower utilisation on softer demand. A lower utilisation rate would result in a lower margins.

Currency exchange rate

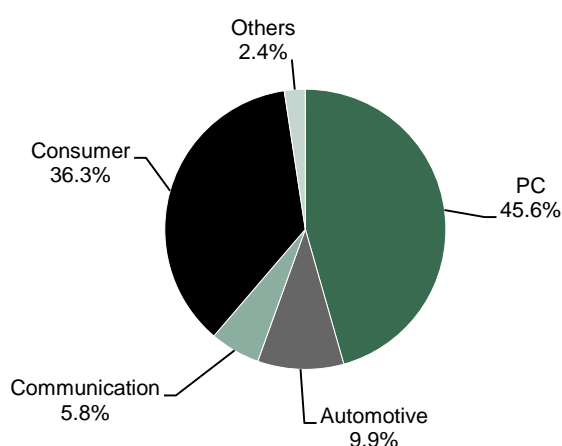
The majority of Luxshare's revenue and major costs, like material cost, are denominated in USD. The exchange rate is therefore a risk to its overall financial performance, given overseas sales have contributed 80% of revenue over the past five years.

Company profile

Established in May 2004, Luxshare Precision Industry Co., Ltd (Luxshare) is a leading global consumer electronics cable and connector manufacturer with applications including PC (desktop and NB), TVs, handsets, game consoles, wearable devices, servers, automotive and so on. Based in Shenzhen, China, Luxshare has offices in China, Taiwan, the USA, Germany and the UK. It is an active member of SATA-IO, USB-IF, VESA, SFF, PCI-SIG, IEEE, IBTA and other professional associations, and contributes towards systems for standard interface and measuring regulations.

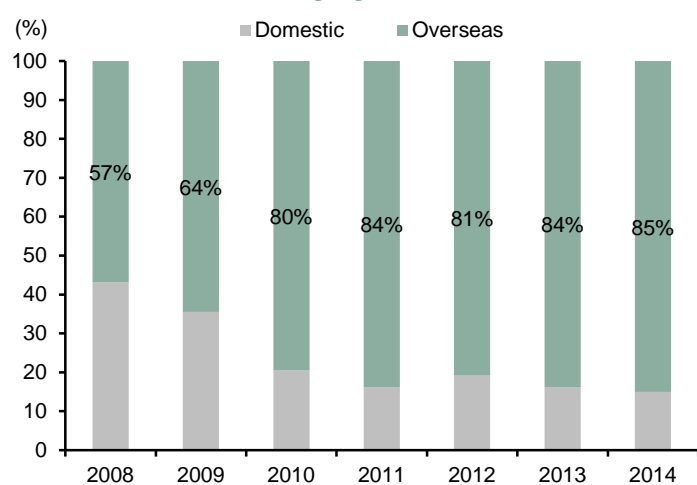
The company originally provided cable/connectors for Hon Hai Group and Foxlink, which were its biggest clients in 2004. On the back of its high manufacturing quality and continued R&D development, Luxshare gradually became one of the leading cable/connector players in different areas, especially in consumer electronics industry. Currently, PC connectors and consumer connectors remain the key product lines, with sales contributions reaching 46% and 36%, respectively, in FY14.

Exhibit 70: 2014 revenue mix



Sources: Company data

Exhibit 71: Revenue mix by geography



Source: Company data

Client portfolio

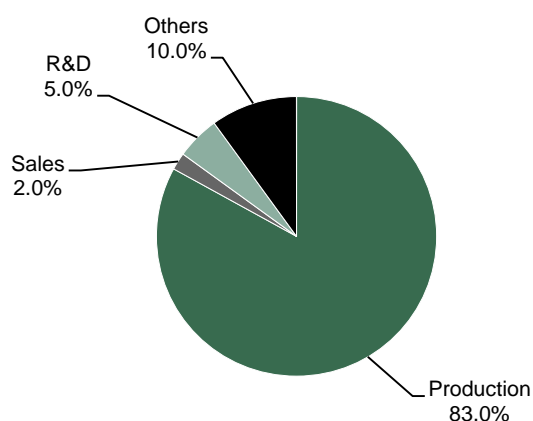
Customers include many leading players in various areas. We believe the strong relationship is supported by its reference design partner role and better product quality with attractive pricing. Top five direct clients account for 44.9% of sales in FY14.

Exhibit 72: Luxshare's key customers in PC, consumer and communication areas

Product line	2014 Sales (%)	Major clients
PC connector	46	Dell (Not-listed), HP (HPQ), Lenovo (0992HK), Asus (2357TT), Acer (2353TT), Apple, Samsung (005930KS), Toshiba (6502JP)
Consumer connector	36	Apple, Samsung, Microsoft (MSFT), Sony (6758JP), Nintendo (7974JP), Sharp (6753JP), Toshiba, Google (GOOG), GoPro (GPRO), Huawei (not listed), ZTE (0763HK), OPPO (Not-listed), Lenovo, TCL (2618.HK), LeTV (300104CH), Xiaomi (not-listed), among others
Communication connector	6	Huawei, Lenovo, Cisco (CSCO), IBM (IBM), among others

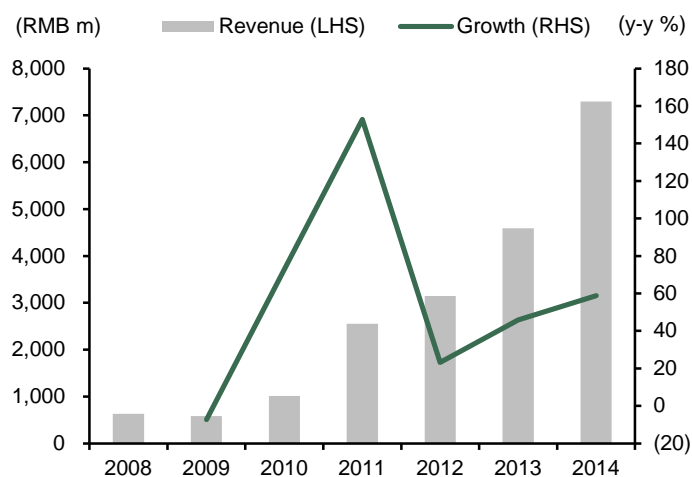
Sources: Luxshare; BNP Paribas

Exhibit 73: Employee mix



Sources: Company data

Exhibit 74: Historical revenue growth



Sources: Company data

Exhibit 75: Luxshare key milestones

Time	Key event
May-04	Chairman established Luxshare in Shenzhen
Sep-10	IPO with ticker of 002475.SH in Shenzhen stock exchange
Jan-11	Luxshare acquired Boshuo Co.,Ltd
May-11	Set up HK Luxshare
Jul-11	Set up US Luxshare
Aug-11	Set up Taiwan Luxshare
Jan-12	Acquired Shenzhen Science Expert Industrial Co., Ltd. (Automotive related business)
May-12	Acquired Dongguan Xuntao Electronics
Jun-12	Acquired Fujian Wiring Systems
Sep-12	Acquired ZhuHai All-Winner FPC Co.,Ltd. (For FPCB business)
Aug-13	Set up Japan Luxshare
Jan-14	Acquired German company "SUK Kunststofftechnik GmbH"
Jan-14	Set up UK Luxshare
Mar-14	Acquired Toyoshima Electronic Technology Suzhou (For Cable business)

Source: Luxshare

Exhibit 76: Top 10 shareholders

Major share holder	Holding (%)
Luxshare Co.	57.75
XJ Zixin Investment Co.	3.29
Social Security Fund	1.62
Dingxiang ADDL No5 Asset	1.38
Foxlink	1.34
Pinan Caifu Phase5 No.3	1.1
Anhui Investment Management Co	0.82
China Construction Bank investment fund	0.81
China Life	0.75
Invesco Great Wall Fund Management	0.64

Sources: WIND data, Bloomberg

Exhibit 77: Management profile

Current Position	Name	Major Experience	Educational Background
Chairman	Ms. Wang Laichun 王来春	10 years' experience in Foxconn International Holdings (1988-1997). One of the founders and acted as chairman and CEO	EMBA from Tsinghua University, graduate school at Shenzhen
Vice Chairman	Mr. Wang Laisheng 王来胜	One of the founders and acted as vice chairman	n.a.
Vice President	Mr. Chen Chaofei 陈朝飞	Joined Luxshare in 2004 and acted as vice president/board member in Luxshare	n.a.
Vice President	Mr. Ding Yuanda 丁远达	Joined Luxshare in 2004 and acted as vice president/secretary	Bachelor degree in engineering
Vice President	Mr. Zhang Lihua 张立华	Past experience in Fuhon Precision Component (connector provider within Hon Hai group). Joined Luxshare in 2004	Bachelor degree in engineering
Vice President	Ms. Li Jing 李晶	Joined Luxshare in 2004 and acted as vice president	Bachelor degree in engineering
Vice President	Mr. Li Bin 李斌	Vice president responsible for core technology. Past experience in Fuhon Precision Component, engaging in connector technology development.	Master degree in engineering
Controller	Ms. Ye Yiling 叶怡伶	Audit experience in PwC. Joined Luxshare in 2011 and acted as finance controller	Bachelor degree in accounting

Source: Luxshare



Appendix

Type C connector is specially designed for USB 3.1

To understand what the type C connector is, we looked at Universal Serial Bus (USB) specifications in the past 20 years. As mentioned before, USB is one of the key connector formats and has become ubiquitous as a way to connect our mobile devices to power sources and to other devices. Before the introduction of USB 3.1, there were seven different types of USB connectors already in use: USB 2.0 A, B, mini B and micro B; and USB 3.0 A, B and micro B. Theoretically, the Type C connector is specially designed for USB 3.1 but remains functional under USB 3.0/2.0 platforms, albeit with less efficiency.

- **USB 1.0:** Introduced in 1996, USB 1.0 can support data transfer speeds up to 1.5Mbps in the beginning. USB launched USB 1.1 in 1998 and can support a data transfer speed up to 12Mbps.
- **USB 2.0:** Introduced in 2000, USB 2.0 can support speeds up to 480Mbps, 40 times that of USB 1.0.
- **USB 3.0:** Introduced in 2008, USB 3.0 can support speed up to 5Gbps, ten times faster than USB 2.0. USB 3.0 ports on computers or other devices are normally shown in blue colour.
- **USB 3.1:** Introduced on July 2013, USB 3.1 is the latest generation and can support speeds up to 10Gbps, double the speed of USB 3.0. At 2015 CES, Intel and Universal Serial Bus (USB) together showcased USB 3.1 again and emphasised that USB 3.1 (with type C connector) is able to double the transfer speed of USB 3.0 to reach up to 10Gbps, matching the speed of Intel's 1st generation of Thunderbolt.

Exhibit 78: Major USB connector interface we have seen on the market

USB Gen	- Cable configuration --	Size	Maximum speed	Power output	Reversible-plug?
USB 1.1	Type A	 4.5mm x 12.0mm	12Mbps	2.5W	No
	Type B	 7.3mm x 8.5mm	12Mbps	2.5W	No
USB 2.0	Type A	 4.5mm x 12.0mm	480Mbps	2.5W	No
	Mini B	 3.0mm x 6.8mm	480Mbps	2.5W	No
	Micro B	 1.8mm x 6.9mm	480Mbps	2.5W	No
USB 3.0	Type A	 4.5mm x 12.0mm	5Gbps	4.5W	No
	Type B	 7.3mm x 8.5mm	5Gbps	4.5W	No
USB 3.1	Type A	 4.5mm x 12.0mm	5Gbps	4.5W	No
	Type CV	 6.8mm x 1.8mm	10Gbps	up to 100W	Yes

Source: Wikipedia

Corporate governance

Board structure

Number of Independent Directors (ID)	3
Percentage of IDs in the board	43%
ID participation/attendance at board meetings	100% (either attended actual meetings or through telephone)
ID participation in audit/remuneration committees	100% (either attended actual meetings or through telephone)
ID terms (years of service, re-election/replacement procedures)	3 years (can be re-elected but maximum is six years)

Sources: Luxshare; BNP Paribas

Additional comments: Currently, there are three independent directors who have expertise in engineering, accounting, and law, respectively. Since its IPO in 2010, Luxshare's independent directors have been stable with low turnover.

Audit practises

Auditor	BDO China Shu Lun Pan
Length of service	7 years
Reporting incidents	0
Fee track record	n.a.
Policy on change of Audit firm	n.a.

Sources: Luxshare; BNP Paribas

Additional comments: BDO China Shu Lun Pan accounting firm has provided auditing services for Luxshare for seven years and the company has not reported any incident since IPO. We see the stable auditor as a good sign of Luxshare's corporate governance.

Compensation and remuneration

Directors' remuneration vs. earnings/ROE/share performance	0.7% of net income (healthy)
Changes/stability in senior management	Few changes since IPO
Incidents of termination of senior management	no
Track record on Insider sales	normal

Sources: Luxshare; BNP Paribas

Additional comments: We believe Luxshare's directors and management team are experienced and stable, without a big reshuffle in past years, thus we see a low risk of future changes in management team.

Shareholders' rights

Communication - shareholder participation in AGMs/EGMs	63.7%
Related party transactions	n.a.
Voting issues - policies, incidents of rejected proposals	No

Sources: Luxshare; BNP Paribas

Additional comments: We see a decent 64% participating percentage in annual shareholder meetings in FY14 as the top 3 shareholders account for more than 60% of shares. As such, we think the current management has dominant control in Luxshare, which is positive for execution.

Financial statements

Luxshare

Profit and Loss (RMB m) Year Ending Dec	2013A	2014A	2015E	2016E	2017E
Revenue	4,592	7,296	10,354	13,932	18,191
Cost of sales ex depreciation	(3,534)	(5,394)	(7,753)	(10,459)	(13,674)
Gross profit ex depreciation	1,058	1,902	2,601	3,473	4,517
Other operating income	-	-	-	-	-
Operating costs	(423)	(785)	(1,108)	(1,429)	(1,810)
Operating EBITDA	634	1,117	1,493	2,043	2,707
Depreciation	(113)	(203)	(220)	(240)	(250)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	521	915	1,273	1,803	2,457
Net financing costs	(63)	(52)	(40)	(40)	(40)
Associates	46	16	12	20	0
Recurring non operating income	84	1	44	48	40
Non recurring items	0	0	0	0	0
Profit before tax	543	864	1,277	1,811	2,457
Tax	(81)	(125)	(186)	(263)	(369)
Profit after tax	462	739	1,091	1,549	2,088
Minority interests	(122)	(109)	(32)	(32)	(40)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	340	630	1,059	1,517	2,048
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	340	630	1,059	1,517	2,048
Per share (RMB)					
Recurring EPS *	0.62	0.76	0.85	1.22	1.64
Reported EPS	0.62	0.76	0.85	1.22	1.64
DPS	0	0	0	0	0
Growth					
Revenue (%)	45.9	58.9	41.9	34.6	30.6
Operating EBITDA (%)	31.3	76.2	33.6	36.9	32.5
Operating EBIT (%)	25.5	75.4	39.1	41.7	36.2
Recurring EPS (%)	(13.9)	22.0	12.0	43.2	35.1
Reported EPS (%)	(13.9)	22.0	12.0	43.2	35.1
Operating performance					
Gross margin inc depreciation (%)	20.6	23.3	23.0	23.2	23.5
Operating EBITDA margin (%)	13.8	15.3	14.4	14.7	14.9
Operating EBIT margin (%)	11.4	12.5	12.3	12.9	13.5
Net margin (%)	7.4	8.6	10.2	10.9	11.3
Effective tax rate (%)	0.0	0.0	0.0	0.0	100.0
Dividend payout on recurring profit (%)	0.0	0.0	0.0	0.0	0.0
Interest cover (x)	9.7	17.7	32.9	46.3	62.4
Inventory days	56.4	62.2	65.9	66.9	67.5
Debtor days	117.2	101.1	96.3	96.6	94.6
Creditor days	106.4	102.0	87.6	80.3	81.0
Operating ROIC (%)	-	-	-	-	-
ROIC (%)	-	-	-	-	-
ROE (%)	15.6	18.2	21.0	24.4	26.1
ROA (%)	10.3	10.0	11.0	13.4	14.7
*Pre exceptional pre-goodwill and fully diluted					
Revenue By Division (RMB m)					
Apple products	1,371	2,689	4,496	5,479	5,923
PC (non-Apple)	2,461	2,533	3,443	4,918	7,465
Consumer electronics (non-Apple)	201	761	542	683	913
Automotive	290	704	1,054	1,494	2,002
Communication	216	438	689	1,112	1,607
Others	52	172	130	247	281

Sources: Luxshare; BNP Paribas estimates

Financial statements

Luxshare

Cash Flow (RMB m) Year Ending Dec	2013A	2014A	2015E	2016E	2017E
Recurring net profit	340	630	1,059	1,517	2,048
Depreciation	113	203	220	240	250
Associates & minorities	0	0	0	0	0
Other non-cash items	210	7	0	0	0
Recurring cash flow	663	840	1,279	1,757	2,298
Change in working capital	(368)	(519)	(1,156)	(909)	(902)
Capex - maintenance	0	0	0	0	0
Capex - new investment	(674)	(983)	(1,000)	(1,000)	(1,000)
Free cash flow to equity	(380)	(662)	(878)	(153)	397
Net acquisitions & disposals	0	0	0	0	0
Dividends paid	(54)	(102)	(153)	(106)	(152)
Non recurring cash flows	(90)	(786)	0	0	0
Net cash flow	(524)	(1,550)	(1,030)	(259)	245
Equity finance	19	2,011	0	0	0
Debt finance	781	998	0	0	0
Movement in cash	276	1,458	(1,030)	(259)	245

Per share (RMB)					
Recurring cash flow per share	1.21	1.01	1.02	1.41	1.84
FCF to equity per share	(0.69)	(0.80)	(0.70)	(0.12)	0.32

Balance Sheet (RMB m) Year Ending Dec	2013A	2014A	2015E	2016E	2017E
Working capital assets	2,673	3,730	5,099	6,680	8,377
Working capital liabilities	(1,637)	(2,269)	(2,481)	(3,153)	(3,948)
Net working capital	1,036	1,461	2,618	3,527	4,429
Tangible fixed assets	1,756	2,438	3,218	3,978	4,728
Operating invested capital	2,792	3,899	5,835	7,505	9,156
Goodwill	337	325	325	325	325
Other intangible assets	0	0	0	0	0
Investments	33	113	113	113	113
Other assets	628	844	844	844	844
Invested capital	3,791	5,181	7,117	8,787	10,439
Cash & equivalents	(737)	(2,242)	(1,212)	(953)	(1,198)
Short term debt	1,091	2,139	2,139	2,139	2,139
Long term debt *	271	284	284	284	284
Net debt	625	181	1,211	1,470	1,225
Deferred tax	0	0	0	0	0
Other liabilities	29	36	36	36	36
Total equity	2,318	4,592	5,498	6,909	8,806
Minority interests	820	372	372	372	372
Invested capital	3,791	5,181	7,117	8,787	10,439

* includes convertibles and preferred stock which is being treated as debt

Per share (RMB)					
Book value per share	4.23	5.52	4.41	5.54	7.06
Tangible book value per share	3.62	5.13	4.15	5.28	6.80

Financial strength					
Net debt/equity (%)	19.9	3.6	20.6	20.2	13.3
Net debt/total assets (%)	10.1	1.9	11.2	11.4	7.9
Current ratio (x)	1.3	1.4	1.4	1.4	1.6
CF interest cover (x)	5.7	7.2	4.1	22.2	35.9

Valuation	2013A	2014A	2015E	2016E	2017E
Recurring P/E (x) *	61.2	50.2	44.8	31.3	23.1
Recurring P/E @ target price (x) *	72.5	59.4	53.0	37.0	27.4
Reported P/E (x)	61.2	50.2	44.8	31.3	23.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/CF (x)	31.4	37.6	37.1	27.0	20.6
P/FCF (x)	(54.7)	(47.7)	(54.0)	(310.2)	119.6
Price/book (x)	9.0	6.9	8.6	6.9	5.4
Price/tangible book (x)	10.5	7.4	9.2	7.2	5.6
EV/EBITDA (x) **	27.2	24.7	26.6	23.7	17.9
EV/EBITDA @ target price (x) **	32.0	29.1	31.4	27.9	21.1
EV/invested capital (x)	5.9	6.2	6.9	5.6	4.7

* Pre exceptional & pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non operating income

Sources: Luxshare; BNP Paribas estimates

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BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

** In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.*

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Deteriorating (↓): The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

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Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

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Reduce	97 (13.6%)	Reduce	0.00

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