

Technology

National subsidies to expand to smartphones, tablets and smart watches; Positive on replacement demand

China's NDRC announced on 3rd Jan to expand national subsidy program to more product categories, including smartphones, tablets and smart watches, which is earlier than market expectations. While some provinces (Fig. 1) started to expand subsidy plans to smartphones/tablets (10-20% of ASP; RMB 600-2,000 max) since Aug 2024, we believe this announcement will accelerate the implementation in other provinces, which will boost overall smartphone replacement demand in the near term. We believe stocks with high exposure to Chinese brands/market will benefit, including Xiaomi (brand), Sunny Optical/Q-tech (optics), BYDE/Tongda (casing), AAC Tech (acoustics/optics/hinges), Luxshare (acoustics/haptics/ODM) and FIT Hon Teng (connectors).

■ **National subsidy to expand to smartphones, tablets, smart watches; Mid/low-end models set to benefit first.** China's NDRC announced to expand national subsidy program during the press conference on 3rd Jan. Key highlights include: 1) Three types of 3C products will be included, i.e. smartphones, tablets and smart watches. 2) Subsidy will be implemented nationwide, including both online and offline channels. 3) While the amount and upper limit of subsidies are yet to be announced, as a reference, recent national subsidies released in Aug 2024 (mainly for home appliances) were 15%/20% of the sales price for products with level 2+/level 1+ energy/water efficiency standards and maximum subsidy was RMB 2,000 per item. In addition, while some provinces (Fig. 1) started to expand subsidies for smartphones/tablets since Aug 2024 (10-20% of ASP; RMB 600-2,000 max), we believe NDRC's announcement will accelerate the progress for other provinces in the near term. We also expect local governments will reveal more details soon, as some models such as iPhone 16 Pro max, Huawei Pura 70 Ultra, Magic 6Pro, and Samsung Galaxy S24 Ultra will meet level 1+ energy efficiency standards. Overall, we believe the new subsidy program will stimulate smartphone demand in the near term and the tech supply chain are set to benefit.

■ **China subsidies, CES 2025 and Apple Intelligence as near-term catalysts; Positive on smartphone supply chain.** We reiterate our positive view on smartphone supply chain in FY25E, backed by AI smartphone cycle, favourable policy in China and spec upgrades in optics, acoustics, thermal/power and foldable models. For iPhone, we expect a back-loaded 2H25E driven by 5 new iPhone 17 models and gradual rollout of Apple Intelligence. For Android, we expect high-end spec upgrades remain the key driver and Huawei/Honor/Xiaomi are the key brands to focus on. For stocks, we like **Xiaomi** for global share gains and EV momentum, **Sunny Optical** for optics and Apple/Xiaomi exposure, **BYDE** for Xiaomi/iPad/iPhone, **AAC Tech** for acoustics/optics/ hinges, **Q-Tech** for Android optics, **Luxshare** for Apple exposure (iPhone/ AirPods), **FIT Hon Teng** for connectors and AirPods ramp-up and **Tongda** for Android casing.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY24E	P/E (x) FY25E	P/B (x) FY25E	ROE FY25E
Xiaomi	1810 HK	Buy	116,952	36.25	32.70*	NA	33.5	28.3	3.9	13.8
BYDE	285 HK	Buy	11,920	41.15	44.41	8%	18.7	13.7	2.8	16.4
Sunny Optical	2382 HK	Buy	9,493	67.45	72.52	8%	26.9	22.6	2.5	11.2
AAC Tech	2018 HK	Buy	5,805	37.75	40.83	8%	22.6	17.8	1.6	8.8
Luxshare	002475 CH	Buy	38,795	39.23	55.09	40%	20.9	17.1	2.8	16.4
FIT Hon Teng	6088 HK	Buy	3,196	3.41	4.38	28%	17.0	10.1	1.1	10.6
Q-Tech	1478 HK	Buy	993	6.52	6.43	-1%	19.5	13.0	1.2	9.6

Source: Company data, CMBIGM estimates, * TP under review

OUTPERFORM
(Maintain)

China Technology Sector

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

Hanqing LI
lihanqing@cmbi.com.hk

Figure 1: Timeline of consumer electronics subsidy programs in China

Province	Date	Subsidy (% of sales price)	Max. Subsidy (Rmb)	Product categories	Online/offline payment
Nationwide	2025.01.03	TBC	TBC	Smartphones, tablets, and smart watches	Online & Offline
Guizhou	2024.12.02	Android phone/tablet: 20%	600	Domestic high-end smartphones and tablets	Online (Cloud Quick Pass APP)
Jiangsu	2024.11.26	15%	1,500	Smartphone, tablets, smart watches, study tools, translation tools, wireless Bluetooth earphones, digital cameras	Only offline
Hangzhou	2024.11.10	10%	1,000	Smartphones, tablets and smart wearables	Online & Offline
Hubei	2024.10.16	10%	1,500	3C products (smartphone, digital cameras, smart watch, learning tools, translation tools, Bluetooth)	Online & Offline
Tianjin	2024.09.10	Level 1+: 20% Level 2+: 15%	2,000	Smartphones, fridges, TVs, air-con, washing machines, PCs, water heaters, household stoves, range hoods	Online & Offline
Shenzhen	2024.09.06	Handset: 10% Tablet/smart wearable: 15%	1,000 2,000	Smartphone, tablets and smart wearables (energy efficiency level+)	Online & Offline
Guangdong	2024.08.29	Handset: 10% Tablet/smart wearable: 15%	1,000 2,000	Smartphones, tablets and smart wearables	Online & Offline

Source: Wind, government official websites, China Securities Journal, CMBIGM

Figure 2: Smartphone subsidy program on JD

Source: JD, CMBIGM

Figure 3: Smartphone/tablet subsidy in Shenzhen

Source: JD, CMBIGM

Figure 4: Supplier mapping and sales mix exposure (2024)

Company	Ticker	Apple	Huawei	Samsung	Other brands	Others	Major products
AAC Tech	2018 HK	25%	10%	10%	43%	12%	Acoustics, haptics, optics, casing
FIT Hon Teng	6088 HK	25%	-	-	-	75%	Connectors, AirPods, accessories, EVs, servers
Sunny Optical	2382 HK	5%	5%	15%	60%	15%	Camera modules, lens sets, automotive lenses/modules
BYDE	285 HK	60%	5%	5%	15%	15%	Metal/Glass/Plastic casing, ODM/OEM, automotive
Tongda	698 HK	5%	5%	5%	50%	35%	Metal/plastic casing
Q-Tech	1478 HK	-	5%	-	85%	15%	Camera module/lens, fingerprint module, auto CCM
TK Group	2283 HK	10%	-	-	-	90%	Plastic molding, plastic precision
Truly	732 HK	-	-	3%	62%	35%	Camera module, fingerprint, display module
Cowell	1415 HK	90%	-	5%	-	5%	Camera module
Luxshare	002475 CN	60%	10%	3%	-	27%	Wireless, iPhone/AirPods/Watch OEM, Acoustic/haptics

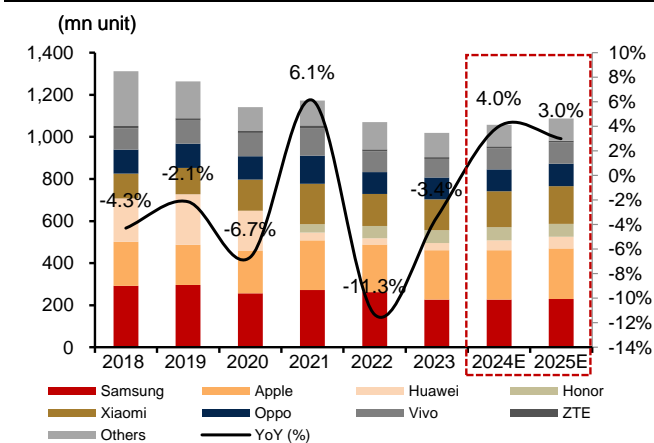
Source: Company data, CMBIGM estimates

Figure 5: Global TAM estimate: servers, PCs, smartphones, AR/VR, TV, iPhone/iPad/AirPods/Watch/Mac

(mn units)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Server	9.7	9.6	10.2	11.8	11.8	12.7	13.5	14.9	12.3	13.9	14.9
YoY growth		-1%	6%	16%	0%	7%	7%	10%	-17%	13%	8%
AI Server- Training									0.42	1.0	2.1
YoY growth										138%	109%
PC	275.8	260.2	259.7	259.6	267.9	304.2	350.1	292.0	257.7	259.8	271.0
YoY growth		-6%	0%	0%	3%	14%	15%	-17%	-12%	1%	4%
Smartphones	1437.6	1,469.5	1,465.3	1,402.5	1,372.6	1,281.2	1,359.8	1,205.9	1,164.7	1,211.3	1,247.6
YoY growth		2%	0%	-4%	-2%	-7%	6%	-11%	-3%	4%	3%
AR/VR		12.9	22.1	13.5	7.1	7.7	11.5	8.0	7.1	6.8	6.6
YoY growth			71%	-39%	-48%	9%	50%	-31%	-11%	-4%	-2%
TV	98.7	115.0	128.8	148.7	159.2	167.9	155.0	143.8	140.1	143.2	147.5
YoY growth		17%	12%	15%	7%	5%	-8%	-7%	-3%	2%	3%
Apple Products											
iPhone	231.5	215.4	215.8	208.0	200.5	204.9	228.6	224.8	224.1	221.7	226.1
YoY growth		-7%	0%	-4%	-4%	2%	12%	-2%	0%	-1%	2%
AirPods				27.5	58.2	73.7	83.8	82.1	74.4	66.3	63.0
YoY growth					112%	27%	14%	-2%	-9%	-11%	-5%
iPad	49.6	42.5	43.8	44.8	46.0	57.3	62.2	63.6	52.4	53.8	56.5
YoY growth		-14%	3%	2%	3%	25%	9%	2%	-18%	3%	5%
Watch	8.8	11.6	18.2	21.4	27.2	34.2	43.4	42.8	40.6	37.9	36.0
YoY growth		32%	57%	18%	27%	26%	27%	-1%	-5%	-7%	-5%
Mac	20.4	18.5	19.0	18.1	18.0	20.7	24.7	23.7	20.6	22.5	23.7
YoY growth		-9%	2%	-4%	-1%	15%	19%	-4%	-13%	10%	5%
HomePod				4.6	6.1	7.1	10.5	10.7	10.0	8.2	7.8
YoY growth					33%	16%	48%	2%	-7%	-18%	-5%
Vision Pro										0.5	0.2
YoY growth											-50%

Source: IDC, Gartner, S&P, Trendforce, CMBIGM estimates

Figure 6: Global smartphone shipment forecast



Source: IDC, CMBIGM

Figure 7: Global smartphone shipments (by brand)

(mn units)	2020	2021	2022	2023	2024E	2025E
Samsung	257	272	262	227	226	230
Apple	203	236	226	234	235	240
Xiaomi	148	191	153	146	170	180
Huawei	189	38	31	35	48	55
Honor	-	40	57	61	62	61
Oppo	161	211	166	154	155	157
Vivo	112	132	99	88	100	100
Others	212	240	212	220	215	225
Total	1,281	1,360	1,206	1,165	1,211	1,248
YoY	-7%	6%	-11%	-3%	4%	3%

Source: IDC, CMBIGM

Figure 8: Peers valuation

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Brand												
Apple	AAPL US	NR	3,685,993	243.85	NA	NA	36.4	33.1	58.8	51.0	156.0	166.6
Xiaomi	1810 HK	Buy	116,952	36.25	32.70*	NA	33.5	28.3	4.4	3.9	13.1	13.8
Transsion	688036 CH	NR	14,052	90.19	NA	NA	19.1	16.0	4.9	4.0	26.3	26.4
Samsung	005930 KS	NR	220,888	54,400	NA	NA	10.8	10.0	1.0	0.9	9.1	9.0
LG	066570 KS	NR	9,472	85,100	NA	NA	6.4	4.6	0.7	0.6	7.4	11.0
TCL Electronics	1070 HK	NR	2,003	6.18	NA	NA	11.4	9.5	0.8	0.8	7.5	8.5
Average							21.2	18.4	14.0	12.1	42.4	45.4
ODM/EMS												
BYDE	285 HK	Buy	11,920	41.15	44.41	8%	18.7	13.7	4.5	3.7	24.2	26.8
Luxshare	002475 CH	Buy	38,795	39.23	55.09	40%	20.9	17.1	3.3	2.8	16.0	16.4
Hon Hai	2317 TT	NR	76,133	181.00	NA	NA	15.8	12.1	1.5	1.4	9.6	11.5
Average							18.5	14.3	3.1	2.6	16.6	18.2
Optics												
Sunny Optical	2382 HK	Buy	9,493	67.45	72.52	8%	26.9	22.6	2.7	2.5	10.1	11.2
Q Tech	1478 HK	Buy	993	6.52	6.43	-1%	19.5	13.0	1.3	1.2	6.9	9.6
Truly	732 HK	NR	463	1.14	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	3,089	27.90	NA	NA	29.6	17.0	5.9	4.4	22.2	28.7
Largan	3008 TT	NR	10,468	2,585	NA	NA	14.6	14.4	1.9	1.8	13.3	13.0
Genius	3406 TT	NR	1,666	487.00	NA	NA	12.1	13.0	2.3	2.0	19.8	16.5
O-Film	002456 CH	NR	5,065	11.20	NA	NA	104.7	41.5	8.9	8.5	6.0	12.2
Lg Innotek	011070 KS	NR	2,580	160,300	NA	NA	6.4	5.8	0.7	0.6	11.9	11.8
Average							30.5	18.2	3.4	3.0	12.9	14.7
Acoustics/Haptics												
AAC Tech	2018 HK	Buy	5,805	37.75	40.83	8%	22.6	17.8	1.7	1.6	7.4	8.8
Luxshare	002475 CH	Buy	38,795	39.23	55.09	40%	20.9	17.1	3.3	2.8	16.0	16.4
Merry	2439 TT	NR	808	105.00	NA	NA	12.9	11.8	1.7	1.5	14.1	14.0
Knowles	KN US	NR	1,762	20.01	NA	NA	20.4	18.2	-	-	-	-
Nidec	6594 JP	NR	21,642	2,855	NA	NA	22.8	18.1	2.2	1.9	10.1	10.6
Average							21.5	17.6	2.3	2.0	11.2	12.0
Connector												
FIT Hon Teng	6088 HK	Buy	3,196	3.41	4.38	28%	17.0	10.1	1.2	1.1	7.0	10.6
Luxshare	002475 CH	Buy	38,795	39.23	55.09	40%	20.9	17.1	3.3	2.8	16.0	16.4
TE	TEL US	NR	42,074	140.64	NA	NA	18.6	17.4	3.4	3.3	19.1	18.9
Amphenol	APH US	NR	83,199	69.01	NA	NA	37.4	31.7	8.7	7.3	24.8	25.3
Average							23.5	19.1	4.1	3.6	16.7	17.8
Casing												
BYDE	285 HK	Buy	11,920	41.15	44.41	8%	18.7	13.7	4.5	3.7	24.2	26.8
Tongda	698 HK	Buy	98	0.08	0.12	56%	26.0	3.9	0.1	0.1	0.4	2.7
TK Group	2283 HK	Buy	250	2.33	2.82	21%	6.9	5.4	1.0	0.9	15.2	17.4
Everwin	300115 CH	NR	2,999	16.19	NA	NA	29.5	25.3	2.2	2.0	10.8	11.7
Lens Tech	300433 CH	NR	14,066	20.66	NA	NA	25.2	18.7	2.1	1.9	8.5	10.7
Catcher	2474 TT	NR	4,015	194.50	NA	NA	10.6	12.7	0.8	0.9	7.7	6.2
Jabil	JBL US	NR	15,953	142.83	NA	NA	17.0	16.3	9.4	12.0	44.5	62.3
Average							19.1	13.7	2.9	3.1	15.9	19.7
Hinge												
AAC Tech	2018 HK	Buy	5,805	37.75	40.83	8%	22.6	17.8	1.7	1.6	7.4	8.8
Jiangsu Gian	300709 CH	NR	894	35.16	NA	NA	25.1	20.0	-	-	-	-
KH Vatec	060720 KS	NR	134	8,330	NA	NA	7.5	5.6	0.7	0.7	10.2	12.6
Foseltek	6805 TT	NR	1,631	784.00	NA	NA	42.1	20.7	10.1	7.4	24.7	38.9
Jarlytec	3548 TT	NR	333	166.00	NA	NA	19.9	16.8	2.0	1.9	-	-
NBTM	600114 CH	NR	1,298	15.41	NA	NA	23.1	17.4	3.4	3.0	14.5	17.0
Eontec	300328 CH	NR	654	6.93	NA	NA	-	-	-	-	-	-
Average							23.4	16.4	3.6	2.9	14.2	19.3

Source: Bloomberg, CMBIGM estimates, * TP under review

Note: Data as of 3 Jan 2025

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CMB International Global Markets Limited

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

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