

China Technology

OUTPERFORM
 (Maintain)

Limited surprise on Apple order cut; Suggest to focus on non-smartphone names

Apple supply chain was under pressure (Luxshare/BYDE/Sunny Optical/Cowell) yesterday following [report](#) of order cuts for AirPods, Watch and MacBooks in 1Q23E due to a softer consumer backdrop. While we are not surprised by order correction after a soft holiday season in Dec, we believe Apple supply chain will remain volatile in near term amid rising uncertainties on 1Q23 outlook and profit taking pressure after 30%+ rally since Nov. We recommend to stay on the sidelines until more visibility on Apple's earnings on 26 Jan. We maintain HOLD on BYDE/Sunny Optical for high smartphone exposure and fair valuation, and BUY on FIT Hon Teng/ BOEVx for expanding exposure to auto components.

- **Not surprising on order cuts for AirPods, Watch and Macbooks.** Given seasonal weakness in 1Q23 and softer-than-expected holiday seasons in Dec, we are not surprised about component order cuts along tech supply chain. In particular, while Android supply chain has already actively engaged in destocking process since 3Q22, we believe inventory correction for Apple supply chain will accelerate in 1Q23E given weaker economic outlook in US/EU market.
- **Conservative 1H23E outlook on consumer tech names.** We believe recent sector rally since Nov has priced in demand recovery of consumer tech post China reopening. However, we remain cautious on the downside risk of potential recession in US/EU in 1H23E, which will have negative impact to most smartphone-related stocks given their high sales exposure to overseas clients (Apple, Samsung) and overseas market (US, EU, India). In addition, we believe ongoing geopolitical tensions, COVID-19 and supply chain decoupling will continue to accelerate Apple's diversification of production base, but weak macro outlook will slow down the pace of relocation given more conservative capex investment.
- **Stay selective amid macro weakness; Recommend to focus on names with non-smartphone exposure.** We stay selective on tech stocks amid macro demand pressure and ongoing inventory correction. For smartphone, we do not expect demand to recover until 2Q23E, and we are more positive on sub-sectors such as automotive (driven by EV), AR/VR and datacom. Overall, we could see better entry point in late 1Q23E with supply chain cutting aggressively and stocks moving ahead of fundamentals. We maintain HOLD on BYDE and Sunny Optical for high smartphone exposure and fair valuation, and BUY on FIT Hon Teng/ BOEVx for expanding auto exposure.

Valuation Table

Name	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY22E FY23E	P/B (x) FY22E FY23E	ROE
Luxshare	002475 CH	BUY	29,275	28.37	52.3	84%	20.3 17.7	3.8 17.9	
FIT Hon Teng	6088 HK	BUY	1,912	2.05	1.84	-11%	10.2 9.0	0.7 7.2	
BOEVx	710 HK	BUY	1,507	14.88	26.0	75%	19.5 14.3	1.8 14.7	
AAC Tech	2018 HK	HOLD	2,771	18.0	15.4	-14%	24.4 15.2	0.9 3.5	
Sunny Optical	2382 HK	HOLD	12,095	86.2	102.3	18%	28.6 19.4	3.4 11.8	
BYDE	285 HK	HOLD	7,076	24.55	20.4	-17%	26.8 16.3	2.0 6.9	

Source: Company data, CMBIGM estimates

China Technology Sector

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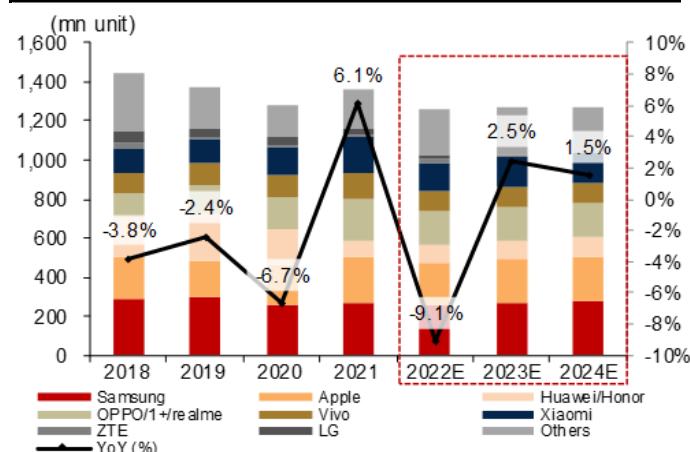
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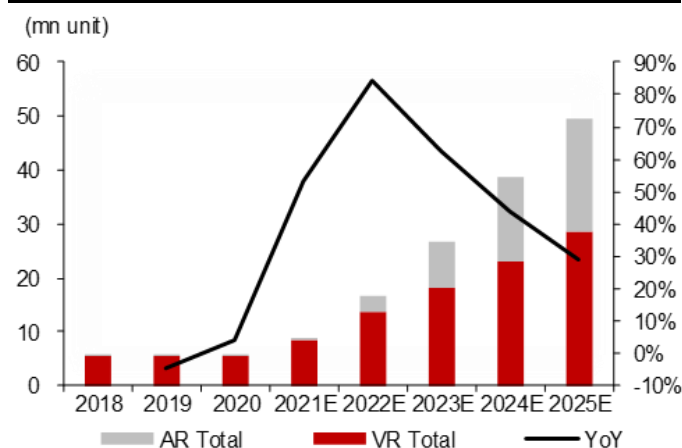
1. Implications of global SPE leaders 3Q22 results on semi industry outlook – 26 Oct 2022 ([link](#))
2. Implications of US's new chip export restrictions to China – 10 Oct 2022 ([link](#))
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Figure 1: Global smartphone shipment forecast



Source: IDC, CMBIGM estimates

Figure 2: Global VR/AR market shipment forecast



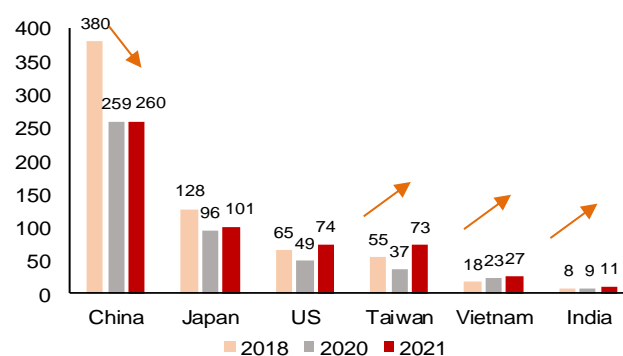
Source: IDC, CMBIGM estimates

Figure 1: Honhai and Luxshare production lines

Supplier	Location	2015	2016	2017	2018	2020	2021
Foxconn	Brazil	1	2	1	1	1	2
	China	19	20	24	29	8	7
	India				1	1	1
	Taiwan	2	1	1	1		
	US			1	2	1	2
	Vietnam				1	1	1
Luxshare	China	5	4	5	7	4	5
	Vietnam				1	1	2

Source: Digitimes, CMBIGM

Figure 2: Location of Apple production lines (2021)



Source: Counterpoint, Digitimes, CMBIGM

Figure 5: Supply chain mapping and sales mix exposure (2022)

Company	Ticker	Apple	Huawei/Honor	Samsung	Other CN brands	Others	Major Products
AAC Tech	2018 HK	45%	5%	25%	20%	5%	Acoustics, haptics, optics, casing
FIT Hon Teng	6088 HK	40%	3%			57%	Connector, wireless charging, accessories
Sunny Optical	2382 HK	2%	10%	20%	58%	10%	Camera module, handset lens sets, auto lens/module
BYDE	285 HK	40%	5%	10%	30%	15%	Metal/glass/plastics casing, ODM/OEM, e-cigarette
Tongda	698 HK	20%	5%	10%	35%	25%	Metal/plastic casing, waterproof
Q-Tech	1478 HK		5%		85%	15%	Cam module/lens, fingerprint modules, auto cam module
TK Group	2283 HK	10%				90%	Plastic molding, plastic precision
Truly	732 HK			3%	62%	35%	Camera modules, fingerprint, display modules
Cowell	1415 HK	90%		5%		5%	Camera Module
Luxshare	002475 CN	60%	10%	3%		27%	Wireless, iPhone/AirPods/Watch OEM, acoustics/haptics
Goertek	002241 CN	45%	5%	10%	15%	25%	Acoustics, AirPods, Watch, AR/VR, Wearables
Sunway	300136 CH	45%	5%	10%	30%	10%	Antenna, wireless charging, connector, RF
Lens Tech	300433 CN	50%	5%	10%	20%	15%	Glass/metal casing, EMS

Source: Company data, CMBIGM estimates

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