

China Technology

OUTPERFORM
 (Maintain)

4Q22 global smartphone shipment down 18% YoY; Continue to prefer non-smartphone plays

IDC released 4Q22 global smartphone shipment with 18% YoY decline (vs -9.3% in 3Q22), mainly due to weak consumer demand, rising inflation and China COVID-19 impact. For 2022, global smartphone shipment fell 11% YoY to 1.21bn unit, marking the lowest annual shipment since 2013. By brand, Apple/Samsung/Xiaomi/Oppo/Vivo declined 15%/16%/26%/16%/19% YoY in 4Q22. Given a weak holiday quarter in 4Q22, we believe inventory destocking and order cancellations will continue to weigh on the sector in 1Q23E. Therefore, we expect profit-taking pressure for smartphones names in near term after 40% sector rally since Nov. We maintain HOLD on BYDE/Sunny Optical for high smartphone exposure and fair valuation, and BUY on FIT Hon Teng/ BOEVx/ Q-Tech for expanding exposure to non-smartphone components.

- 4Q22 global smartphone shipment declined 18% YoY; Chinese brands underperformed.** IDC reported 4Q22 global smartphone shipment decline of 18% YoY, the worst quarter in 2022, compared to 9%/8%/9% decline in 3Q/2Q/1Q22. By brand, Xiaomi/Oppo/Vivo declined 26%/16%/19% YoY, while Apple/Samsung fell 15%/16% YoY. Given weaker holiday season in 2Q22 and macro uncertainties in 2023, we expect order cuts to continue along supply chain in 1Q23E. Given that Android supply chain already started destocking since 3Q22, we expect inventory correction for Apple components will accelerate in 1Q23E given slowdown in US/EU markets.
- Recent sector rally has priced in China reopening.** We believe recent sector rally since Nov has priced in demand recovery after China reopening. However, we expect downside risk of macro slowdown in the US/EU in 1H23E will lead to negative impact to most smartphone supply chains given their high sales exposure to overseas clients (Apple, Samsung) and overseas market (US, EU, India).
- Stay selective and favour non-smartphone plays.** We stay selective on tech stocks amid macro uncertainties and inventory correction. For smartphone, we do not expect demand recovery until 2Q23E, and we are more positive on sub-sectors such as EV, AR/VR and datacom. Overall, we expect better entry point in late 1Q23E with supply chain cutting aggressively and stocks moving ahead of fundamentals. We recommend to take profit and maintain HOLD on BYDE and Sunny Optical for high smartphone exposure and fair valuation, while we reiterate BUY on FIT Hon Teng/ BOEVx/ Q-tech for expanding non-smartphone exposure (eg. automotive).

Valuation Table

Name	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY22E	P/E (x) FY23E	P/B (x) FY22E	P/B (x) FY22E	ROE
Luxshare	002475	CH BUY	32,605	31.09	52.3	68%	22.0	17.9	4.0	18.2	
FIT Hon Teng	6088	HK BUY	2,281	2.45	*1.8	na	12.0	10.7	0.8	6.9	
BOEVx	710	HK BUY	1,807	18.50	25.0	35%	25.4	18.6	4.1	16.3	
Q-Tech	1478	HK BUY	843	5.57	5.8	3%	25.0	10.4	1.2	4.8	
AAC Tech	2018	HK HOLD	3,414	22.30	15.4	-31%	30.3	18.7	1.1	3.5	
Sunny Optical	2382	HK HOLD	16,253	116.00	96.3	-17%	42.8	30.2	4.9	11.5	
BYDE	285	HK HOLD	8,117	28.20	20.4	-28%	34.7	20.6	2.2	6.4	

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

China Technology Sector

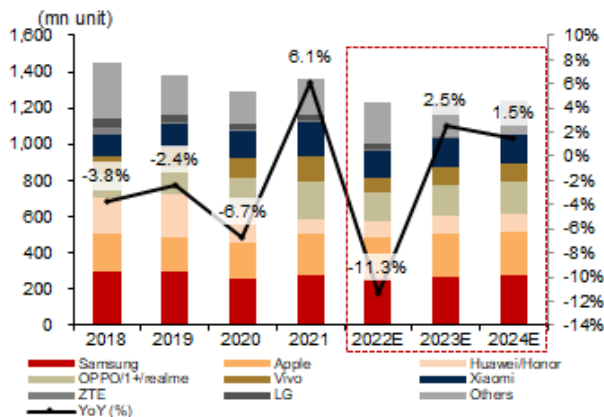
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Related Reports:

- Limited surprise on Apple order cut; Suggest to focus on non-smartphone names – 5 Jan 2023 ([link](#))
- Implications of global SPE leaders 3Q22 results on semi industry outlook – 26 Oct 2022 ([link](#))
- Implications of US's new chip export restrictions to China – 10 Oct 2022 ([link](#))

Figure 1: Global smartphone shipment forecast



Source: IDC, CMBIGM estimates

Figure 2: 4Q22 global smartphone shipment

(mn unit)	4Q22 Shipment	4Q22 Mkt Shr	4Q21 Shipment	4Q21 Mkt Shr	YoY
Apple	72.3	24.1%	85.0	23.1%	-14.9%
Samsung	58.2	19.4%	69.0	18.8%	-15.6%
Xiaomi	33.2	11.0%	45.0	12.2%	-26.3%
OPPO	25.3	8.4%	30.1	8.2%	-15.9%
Vivo	22.9	7.6%	28.3	7.7%	-18.9%
Others	88.3	29.4%	110.2	30.0%	-19.8%
Total	300.3	100.0%	367.6	100.0%	-18.3%

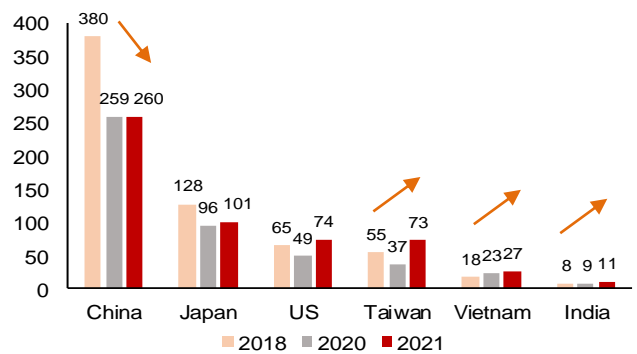
Source: IDC, CMBIGM estimates

Figure 3: Honhai/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 4: 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	Non-handset	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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