

China Technology Sector

New iPhone SE unveiled as expected; COVID-19 continues to weigh on demand

Apple launched its 2nd-gen iPhone SE, the successor of iPhone SE launched in 2016, with spec largely in-line with expectations. The launch timing was delayed to mid-April from original mid-March due to COVID-19 outbreak and supply chain disruption. Given recent COVID-19 impact and consumer demand weakness, we consider 2nd-gen iPhone SE as a low-volume model and estimate 10mn/20mn shipment in 2Q20E/FY20E (vs 20mn for iPhone SE in FY16). Overall, we expect Apple supply chain will continue to face challenges in 2Q/3Q20E, and recent weak 2Q guidance from TW/US supply chain will put the sector under pressure in near term, including AAC Tech, Cowell, Goertek, FIT Hon Teng and Lens Tech.

- **New iPhone SE spec largely in-line; Expect 20mn FY20E shipment.** This entry-level iPhone SE adopted similar design/spec of iPhone 8 in 2017. Key highlights include a 4.7-inch LCD display, Touch ID home button (instead of facing recognition), wireless charging, A13 Bionic chipset (same as iPhone 11 in 2019), single 12MP rear-camera, and starting retail price of US\$399 (same as iPhone SE in 2016). We consider this 2nd-gen iPhone SE as a low-volume model and estimate 10mn/20mn shipment in 2Q20E/FY20E (vs 20mn for iPhone SE in FY16). This model will account for 11% of iPhone FY20E shipment (175mn), which is too small to move the needle in our view.
- **5G iPhone to launch in Nov/Dec; Product cycle to extend into 1H21E.** We believe market remains focused on rollout timing of the four flagship 5G iPhones in 2H20E. Our check suggested that it is extremely unlikely to launch at Sep-Oct timeframe, given supply chain disruption and delay of EVT/PVT for new production lines in China. Therefore, we expect 5G iPhones to launch in Nov-Dec timeframe in order to catch the holiday season. Given recent COVID-19 impact in US/Europe (40%/21% of iPhone sales), we estimate iPhone shipment will decline 25%/8%/1% YoY to 26mn/43mn/73mn in 2Q/3Q/4Q20E.
- **Stay cautious in near term; Another round of earnings cut ahead.** Overall, we remain conservative on tech names (esp. consumer electronics) in 2Q20E. US/TW tech supply chain will start to report earnings in coming two weeks (TSMC 16/4, Intel 23/4, QCOM on 29/4, Apple on 30/4), and we expect weak 2Q20E guidance will continue to put the sector under pressure in near term. We maintain our Sell rating on AAC and HOLD on Goertek and BYDE.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E FY21E	P/B (x) FY20E FY21E	ROE
AAC Tech	2018 HK	Sell	5,948	38.50	29.0	-25%	23.8 15.6	2.1 8.7	
FIT Hon Teng	6088 HK	Buy	1,563	1.78	2.6	48%	6.7 6.0	0.7 10.0	
Tongda	698 HK	Hold	435	0.52	0.5	2%	6.9 6.0	0.5 7.1	
TK Group	2283 HK	Buy	300	2.79	4.1	47%	5.0 4.3	1.8 35.7	
BYDE	285 HK	Hold	4,605	15.30	12.3	-20%	18.8 14.1	1.7 9.0	
Luxshare	002475 CH	Buy	30,846	41.27	55.4	34%	31.3 24.9	7.9 25.4	
Goertek	002241 CH	Hold	8,055	17.94	9.1*	NA	41.7 37.4	3.4 8.1	

Source: Bloomberg, CMBIS estimates, * TP under review

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China Technology Sector

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Focus Charts

Figure 1: new iPhone SE



Source: Apple, CMBIS

Figure 2: Global smartphone shipment forecasts

(mn unit)	2019	2020E	2021E	Growth YoY		
				2019	2020E	2021E
Global Shipment	1,373	1,296	1,329			
... YoY	-2.4%	-5.6%	2.5%			
China Shipment	369	333	372			
... YoY	-5%	-9.8%	11.6%			
Samsung	296	282	300	1%	-5%	6%
Apple	191	175	194	-9%	-8%	11%
Huawei	241	220	240	17%	-9%	9%
Oppo	114	110	116	1%	-4%	5%
Vivo	110	103	112	9%	-6%	9%
Xiaomi	126	120	130	6%	-4%	8%
Others	295	286	237	-19%	-3%	-17%

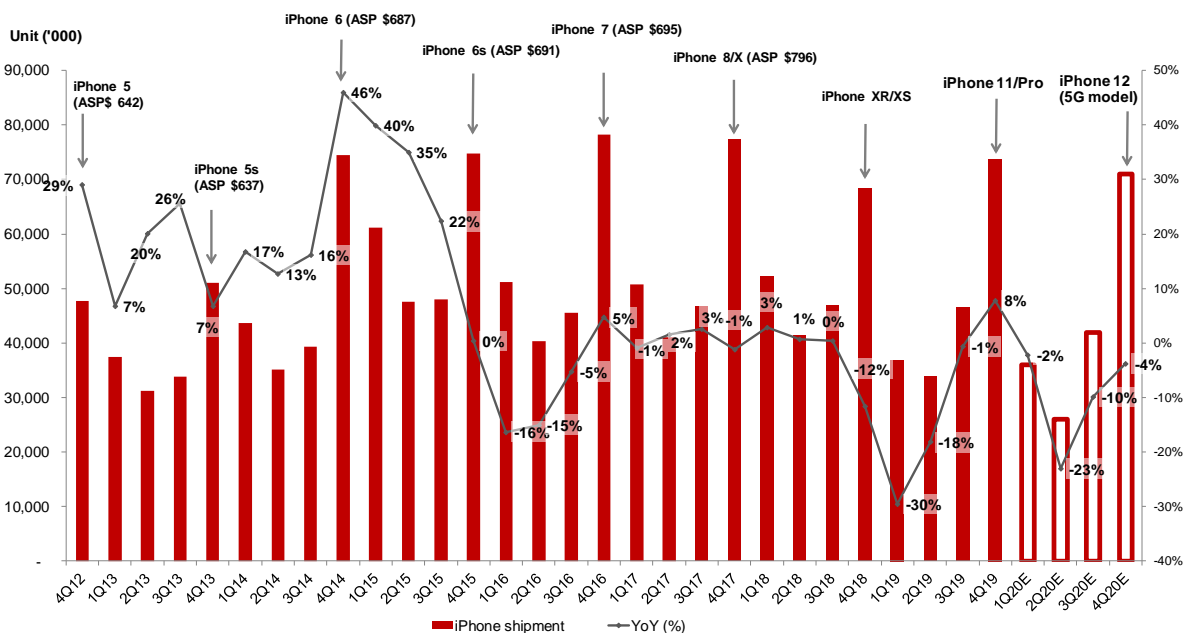
Source: CMBIS estimates

Figure 3: Supply chain mapping and sales mix exposure

Company	Ticker	Apple	Huawei	Samsung	Other CN brands	Others	Major handset products
AAC Tech	2018 HK	45%	15%	25%	10%	5%	Acoustics, haptics, casing, stepper motor
FIT Hon Teng	6088 HK	40%	3%			57%	Connector, wireless charging
Sunny Optical	2382 HK		30%	10%	45%	15%	Camera module, handset/auto lens
BYDE	285 HK	5%	30%	15%	35%	15%	Metal/glass casing, ODM/OEM
Tongda	698 HK	20%	5%	10%	35%	25%	Plastic casing, waterproof
Q-Tech	1478 HK		20%		70%	15%	Camera module/lens, fingerprint
TK Group	2283 HK	10%				90%	Plastic molding
Truly	732 HK			3%	62%	35%	CCM, fingerprint, display
Cowell	1445 HK	90%		5%		5%	Camera Module
Luxshare	002475 CN	60%	10%	3%		27%	Wireless, Airpod, acoustics/haptics
Goertek	002241 CN	35%	15%	10%	10%	30%	Acoustics, Airpod, AR/VR, Wearables
O-film	002456 CN	15%	20%	10%	45%	10%	CCM, fingerprint, touch panel
Lens Tech	300433 CN	50%	15%	10%	10%	15%	Glass casing

Source: Company data, CMBIS estimates

Figure 4: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIS

Figure 5: Peers Comparison

Figure 6: P/E Ratio Comparison												
Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Optics												
Sunny Optical	2382 HK	Hold	15,510	111.40	115.0	3%	24.6	18.9	6.6	5.1	26.7	27.0
Q Tech	1478 HK	Buy	1,359	9.10	14.8	63%	13.5	10.6	2.7	2.2	20.0	21.0
Truly	732 HK	NR	373	0.89	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	210	1.96	NA	NA	6.8	5.2	0.7	0.6	10.6	11.8
Largan	3008 TT	NR	16,932	3800	NA	NA	16.7	13.9	3.4	2.9	22.6	23.9
Genius	3406 TT	NR	1,728	460	NA	NA	16.9	11.6	3.1	2.6	21.0	25.9
Primax	4915 TT	NR	679	44.45	NA	NA	8.8	7.5	1.3	1.0	14.5	15.0
Lite-On	2301 TT	NR	3,372	43.70	NA	NA	12.1	10.6	1.3	1.3	10.9	11.8
O-Film	002456 CH	NR	5,704	15.09	NA	NA	27.2	21.7	3.9	3.4	14.3	16.8
Samsung Elec	009150 KS	NR	6,297	101500	NA	NA	15.6	12.2	1.4	1.3	9.2	10.9
Lg Innotek	011070 KS	NR	2,410	123000	NA	NA	9.8	8.7	1.2	1.0	12.8	13.0
Partron	091700 KS	NR	356	8120	NA	NA	7.1	6.2	1.1	0.9	16.6	16.3
Average							14.5	11.5	2.4	2.0	16.3	17.6
Acoustics/Haptics												
AAC Tech	2018 HK	Sell	5,948	38.50	29.0	-25%	23.8	15.6	2.1	1.9	8.7	12.3
Goertek	002241 CH	Hold	8,055	17.94	9.1*	NA	41.7	37.4	3.4	3.2	8.1	8.6
Luxshare	002475 CH	Buy	30,846	41.27	55.4	34%	31.3	24.9	7.9	6.1	25.4	24.6
Sunway	300136 CH	NR	5,035	37.39	NA	NA	25.7	19.2	5.9	4.5	24.5	25.1
Merry	2439 TT	NR	918	133	NA	NA	11.2	9.1	2.2	2.2	21.2	24.2
Knowles	KN US	NR	1,332	14.42	NA	NA	19.6	12.4	1.1	1.1	4.1	8.1
Nidec	6594 JP	NR	31,805	5878	NA	NA	39.3	27.4	3.3	3.0	8.7	11.4
Alps Alpine	6770 JP	NR	2,016	1009	NA	NA	19.8	8.6	0.6	0.5	3.5	5.7
Average							26.5	19.3	3.3	2.8	13.0	15.0
Connector												
FIT Hon Teng	6088 HK	Buy	1,563	1.78	2.6	48%	6.7	6.0	0.7	0.6	10.0	10.3
Luxshare	002475 CH	Buy	30,846	41.27	55.4	34%	31.3	24.9	7.9	6.1	25.4	24.6
TE	TEL US	NR	21,856	65.41	NA	NA	15.6	12.6	2.0	1.9	14.4	15.2
Amphenol	APH US	NR	23,777	80.37	NA	NA	25.1	21.1	5.1	4.5	23.0	23.8
Delphi	DLPH US	NR	686	7.97	NA	NA	31.6	5.2	1.9	1.7	13.9	30.9
Average							22.1	14.0	3.5	3.0	17.3	21.0
Casing												
BYDE	285 HK	Hold	4,605	15.30	12.3	-20%	18.8	14.1	1.7	1.5	9.0	10.9
Tongda	698 HK	Hold	435	0.52	0.5	2%	6.9	6.0	0.5	0.5	7.1	8.1
TK Group	2283 HK	Buy	300	2.79	4.1	47%	5.0	4.3	1.8	1.8	35.7	41.7
Ju Teng	3336 HK	NR	269	1.81	NA	NA	10.5	11.2	0.4	0.4	0.8	3.2
Everwin	300115 CH	NR	2,463	19.81	NA	NA	31.2	21.1	3.6	3.1	10.6	13.4
Lens Tech	300433 CH	NR	9,514	15.88	NA	NA	19.8	15.8	2.8	2.4	16.0	16.7
Chaozhou Three	300408 CH	NR	4,811	19.15	NA	NA	29.2	22.2	3.8	3.3	13.2	15.0
Casetek	5264 TT	NR	640	46.50	NA	NA	29.8	17.0	0.6	0.6	1.8	2.9
Catcher	2474 TT	NR	5,566	213.5	NA	NA	9.9	8.3	1.0	0.9	10.9	12.9
Jabil	JBL US	NR	3,684	24.44	NA	NA	9.1	6.9	2.1	1.9	23.9	30.3
Average							17.0	12.7	1.8	1.6	12.9	15.5

Source: Bloomberg, CMBIS, * TP under review

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