

# China Technology Sector

## Apple FY1Q23 miss on macro and supply chain issues; Expect weakness to persist in near term

Apple reported a FY1Q (CY4Q22) with EPS of US\$1.88 (-10% YoY) and revenue of US\$117.2bn (-5% YoY), which are 3.1% and 3.3% below consensus, largely due to weak macro and iPhone 14 Pro/Max supply chain constraints on COVID-19 in China. Looking into FY2Q23, mgmt. expected revenue to perform similarly to FY1Q23 (-5% YoY) with iPhone to accelerate and Mac/iPad to decline double digit YoY. Given the challenging revenue outlook, we expect near-term profit taking on slower iPhone/Mac/iPad, but we remain positive on Apple supply chain over Android camp in 2H23E, given iPhone replacement cycle and share gain from Samsung/Android camp. 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.

- **Revenue weakness across most segments and regions.** iPhone/iPad/Mac/Wearables/Service recorded US\$65.8bn/9.4bn/7.7bn/13.5bn/20.8bn quarterly revenue, -8%/+30%/-29%/-8%/+6% YoY, respectively. Revenue is under pressure as the Company is facing challenges due to macro weakness and supply chain constraints on the latest iPhone 14 Pro and 14 Pro Max. iPad sales significantly outperformed the market estimate (beat by 21%) given low base, but mgmt. expected iPad/Mac revenue to decline double digit YoY in the coming quarter. While for the Service segment, revenue came out largely in-line with consensus given expanding user base.
- **Near-term outlook to remain weak given macro uncertainties.** Mgmt. guided company to perform similarly for next quarter (-5% YoY), given better iPhone on China re-opening and double digit YoY decline in Mac/iPad revenue. Gross margin is guided to be between 43.5-44.5%, largely in-line. Despite Apple's record-high installed base with 2.0bn units, we believe macro challenges will remain the major overhang given weak consumer sentiment and prolonged replacement cycle for high-end Apple products.
- **Stay selective and favour non-smartphone plays.** Recent tech 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). We stay selective on tech stocks amid macro uncertainties and inventory correction. We recommend to take profit and maintain HOLD on BYDE/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 (e.g. automotive).

### Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY22E FY23E	P/B (x) FY22E FY23E	ROE
Luxshare	002475 CH	BUY	34,493	32.63	52.3	60%	23.1 18.8	4.2 18.2	
FIT Hon Teng	6088 HK	BUY	2,091	2.25	1.8	-18%	11.0 9.8	0.8 6.9	
BOEVx	710 HK	BUY	1,897	18.80	25.0	33%	25.4 18.6	4.1 16.3	
Q-Tech	1478 HK	BUY	838	5.55	5.8	4%	24.9 10.4	1.2 4.8	
AAC Tech	2018 HK	HOLD	3,262	21.35	15.4	-28%	29.0 17.9	1.0 3.5	
Sunny Optical	2382 HK	HOLD	15,928	113.90	96.3	-15%	42.0 29.6	4.8 11.5	
BYDE	285 HK	HOLD	8,015	27.90	20.4	-27%	34.3 20.3	2.2 6.4	

Source: Company data, CMBIGM estimates

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### China Technology Sector

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## Focus Charts

Figure 1: Apple's FY1Q23 (CY4Q22) results review

Apple Inc (AAPL US)	Actual			Consensus	
US\$ bn	FY1Q23	FY1Q22	YoY %	FY1Q23E	Diff (%)
Revenue	117.2	123.9	-5%	121.1	-3.3%
EPS (cent US\$)	1.88	2.10	-10%	1.94	-3.1%
GPM	42.9%	43.8%	0.0ppt	43.0%	-0.1ppt
Product	96.4	104.4	-8%	101.1	-5%
iPhone	65.8	71.6	-8%	68.3	-4%
iPad	9.4	7.2	30%	7.8	21%
Mac	7.7	10.9	-29%	9.7	-20%
Wearables, Home and Accessories	13.5	14.7	-8%	15.3	-12%
Services	20.8	19.5	6%	20.5	1%

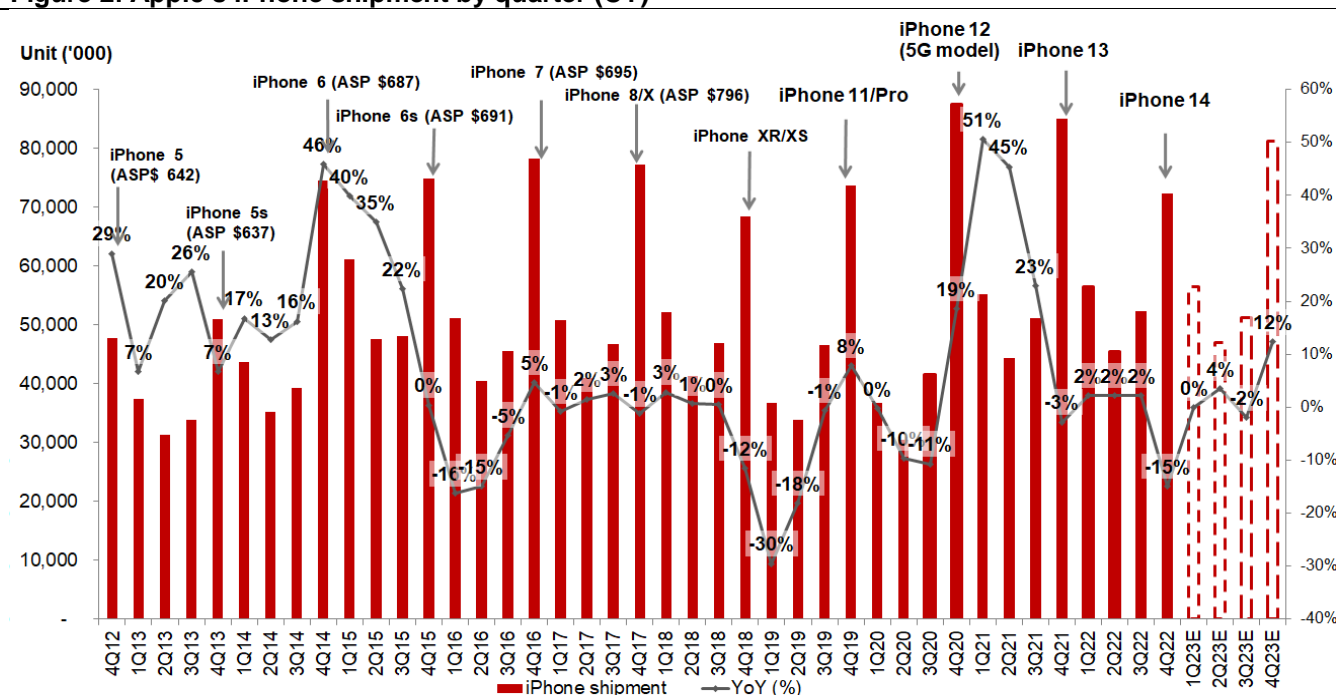
Source: Bloomberg, Company data, CMBIGM

Figure 2: Supply chain mapping and sales mix exposure (2022)

Company	Ticker	Apple	Huawei	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%	5%	15%	63%	15%	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

Figure 2: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIGM

Figure 5: Peers Comparison

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Optics</b>												
Sunny Optical	2382 HK	Hold	15,928	113.90	96.3	-15%	42.0	29.6	4.8	4.3	11.5	14.4
Q Tech	1478 HK	Buy	838	5.55	5.8	4%	24.9	10.4	1.2	1.1	4.8	10.6
Truly	732 HK	NR	600	1.49	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	1,710	15.98	NA	NA	21.0	15.9	4.2	3.4	22.2	24.6
Largan	3008 TT	NR	9,973	2220	NA	NA	13.2	16.8	1.9	1.8	13.3	11.5
Genius	3406 TT	NR	1,442	380	NA	NA	12.0	12.9	2.2	2.0	19.0	16.0
Primax	4915 TT	NR	912	59.10	NA	NA	9.6	9.1	1.5	1.5	16.3	16.7
Lite-On	2301 TT	NR	5,329	67.00	NA	NA	10.9	10.1	2.1	1.9	19.0	19.7
O-Film	002456 CH	NR	2,473	5.11	NA	NA	-	-	3.8	4.5	-	(13.2)
Samsung Elec	009150 KS	NR	9,110	149300	NA	NA	11.8	15.5	1.5	1.4	13.5	9.3
Lg Innotek	011070 KS	NR	5,365	277500	NA	NA	6.1	6.4	1.5	1.2	28.6	21.4
Partron	091700 KS	NR	426	8850	NA	NA	11.6	9.1	1.0	1.0	9.4	10.9
Average							16.3	13.6	2.3	2.2	15.8	12.9
<b>Acoustics/Haptics</b>												
AAC Tech	2018 HK	Hold	3,262	21.35	15.4	-28%	29.0	17.9	1.0	1.0	3.5	5.6
Goertek	002241 CH	Buy	10,208	20.11	44.7	122%	12.6	10.2	2.1	1.8	17.1	17.8
Luxshare	002475 CH	Buy	34,493	32.63	52.3	60%	23.1	18.8	4.2	3.5	18.2	18.6
Sunway	300136 CH	NR	2,605	18.12	NA	NA	22.5	16.9	2.6	2.3	11.6	14.0
Merry	2439 TT	NR	608	83	NA	NA	11.5	12.2	1.4	1.4	12.6	11.3
Knowles	KN US	NR	1,823	20.04	NA	NA	16.0	15.9	1.6	1.4	-	-
Nidec	6594 JP	NR	33,302	7176	NA	NA	29.8	37.5	3.5	3.1	12.2	8.3
Alps Alpine	6770 JP	NR	2,382	1396	NA	NA	16.7	8.8	0.8	0.7	4.7	8.1
Average							20.1	17.3	2.2	1.9	11.4	12.0
<b>Connector</b>												
FIT Hon Teng	6088 HK	Buy	2,091	2.25	1.8	-18%	11.0	9.8	0.8	0.7	6.9	7.4
Luxshare	002475 CH	Buy	34,493	32.63	52.3	60%	23.1	18.8	4.2	3.5	18.2	18.6
TE	TEL US	NR	42,706	134.95	NA	NA	18.5	20.3	4.0	3.7	22.0	18.3
Amphenol	APH US	NR	48,851	82.09	NA	NA	27.6	27.3	7.2	6.2	28.1	24.9
Average							20.1	19.1	4.1	3.5	18.8	17.3
<b>EMS/OEM</b>												
BYDE	285 HK	Hold	8,015	27.90	20.4	-27%	34.3	20.3	2.2	2.0	6.4	9.9
Luxshare	002475 CH	Buy	34,493	32.63	52.3	60%	23.1	18.8	4.2	3.5	18.2	18.6
Hon Hai Precision	2317 TT	NR	46,661	100.00	NA	NA	9.7	8.9	0.9	0.9	9.8	10.1
Pegatron	4938 TT	NR	5,872	65.40	NA	NA	11.0	9.8	0.9	0.9	8.7	9.0
Wistron	3231 TT	NR	3,106	31.80	NA	NA	9.1	8.9	1.0	0.9	11.2	10.4
Average							29.0	20.9	6.6	5.0	13.6	19.9
<b>Casing</b>												
BYDE	285 HK	Hold	8,015	27.90	20.4	-27%	34.3	20.3	2.2	2.0	6.4	9.9
Tongda	698 HK	Buy	167	0.14	0.2	63%	4.5	3.4	0.1	0.1	2.3	3.0
TK Group	2283 HK	Buy	176	1.66	3.4	104%	4.0	3.2	0.8	0.7	18.6	20.7
Ju Teng	3336 HK	NR	220	1.44	NA	NA	-	-	-	-	-	-
Everwin	300115 CH	NR	2,291	12.84	NA	NA	144.3	22.1	2.7	2.2	1.5	7.3
Lens Tech	300433 CH	NR	9,775	13.23	NA	NA	30.8	18.8	1.5	1.4	5.5	7.7
Chaozhou Three	300408 CH	NR	9,424	33.10	NA	NA	35.7	26.8	3.7	3.3	9.6	11.8
Catcher	2474 TT	NR	4,449	185.0	NA	NA	10.2	16.9	0.8	0.8	8.3	4.9
Jabil	JBL US	NR	10,842	81.35	NA	NA	10.9	9.7	4.3	3.4	45.8	42.4
Average							34.3	15.2	2.0	1.7	12.2	13.4

Source: Bloomberg, CMBIGM estimates, \* TP under review

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