

# China Technology Sector

## Apple FY4Q beats on iPhone/wearables

Apple posted FY4Q (CY3Q19) results with EPS of US\$3.03 (+4% YoY) and revenue of US\$61.0bn (+2% YoY), which are 7% and 3% above consensus. GPM came in at 38.0%, slightly above consensus. For FY1Q20 guidance, Apple expects revenue of US\$86-\$90bn, with midpoint of US\$87.5bn (+4% YoY) largely in-line with consensus at US\$86.5bn. Given better guidance, iPhone recovery, wearable momentum and improving China sales, we believe Apple supply chain will react positively, especially wearables names, such as Luxshare and Goertek. We also like Apple content/share gainers, such as FIT, Tongda and TK Group. For other iPhone-related names, we are increasingly more positive on 4Q19/FY20E shipment upside such as AAC Tech and O-Film.

- Stabilizing iPhone on low-price strategy and strong wearables momentum.** Key highlights from earnings call include 1) improving iPhone sales (-9% YoY, vs -15% in FY3Q) due to lower-pricing and 5x more trade-in vs last yr, 2) better China trend (-2% YoY, vs -4% in FY3Q) on price cuts and less trade tensions, 3) Cook's optimistic view on US-China trade dispute progress, 4) continued strong wearables momentum (AirPods, Watch) (+54% YoY, vs +48% in FY3Q), 5) Service re-accelerated (+18% YoY, vs +13%/16% in FY3Q/2Q) with double digit growth across all regions, and 6) Service on track to double 2016 revenue by 2020 (now 20% of sales; 30% of GP).
- Positive outlook backed by solid pipeline (iPhone SE, new AitPod Pro, Apple TV+).** Despite Apple's accelerated shift to service-led growth strategy, we believe iPhone shipment recovery, wearables demand and strong pipeline (esp. low-price iPhone SE, noise-cancelling AirPods Pro) will be positive to Apple supply chain in 4Q19 and 2020E. We expect iPhone shipment decline to narrow to -5% YoY in CY4Q (vs -8% in CY3Q) and return to +17% YoY growth in CY1Q20E.
- Improving iPhone/wearable is positive to supply chain; Prefer content /share gainers with YoY growth.** We believe better iPhone 11 sales is partly priced in, but bullish guidance confirmed continued recovery for supply chain. Looking ahead, despite late launch of 5G iPhones until 2H20E, we expect new iPhone SE could offset China weakness in 1H20E. For stocks, we are more positive on wearables-related names, such as Luxshare and Goertek, while we are increasingly more positive on iPhone-related stocks including AAC Tech on acoustics/haptics. We also like share gainers, such as FIT on connectors, Tongda on iPhone/Macbook waterproof components, BYDE on Watch/ accessories, and Luxshare on Airpod/acoustics.

### Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	P/B (x) FY19E	ROE
AAC Tech	2018 HK	Sell	6,713	43.45	33.80	-22%	17.8	15.1	2.3	13.2	
FIT Hon Teng	6088 HK	Buy	2,831	3.27	3.87	18%	10.9	9.5	1.3	12.2	
Tongda	698 HK	Buy	489	0.59	0.76	29%	4.5	3.8	0.5	12.3	
TK Group	2283 HK	Buy	373	3.50	4.52	29%	7.7	6.4	2.3	29.9	
BYDE	285 HK	Hold	3,291	11.42	11.90	4%	13.4	11.8	1.7	12.5	
Luxshare	002475 CH	Buy	16,940	21.83	32.01	47%	23.5	17.0	4.4	18.8	
Goertek	002241 CH	Hold	5,555	11.80	9.10	-23%	31.0	27.2	2.4	7.7	

Source: Bloomberg, CMBIS estimates

### MARKET PERFORM (Maintain)

#### China Technology Sector

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## Focus Charts

Figure 1: Apple's FY4Q19 (CY3Q19) results review

Apple Inc (AAPL US)	Actual			Consensus	
US\$ bn	FY4Q19	FY4Q18	YoY %	FY4Q19	Diff (%)
Revenue	64.0	62.9	2%	62.4	2.6%
EPS (cent US\$)	3.0	2.9	4%	2.8	6.7%
GPM	38.0%	38.3%	-0.3ppt	37.7%	0.3ppt
<b>Product</b>					
iPhone	51.5	52.3	-1%	49.9	3%
iPad	33.4	36.8	-9%	32.3	3%
iPad	4.7	4.0	17%	4.6	2%
Mac	7.0	7.3	-5%	7.4	-6%
Wearables, Home and Accessories	6.5	4.2	54%	5.7	14%
Services	12.5	10.6	18%	12.2	3%
<b>Mix by product (%)</b>					
iPhone	52%	58%			
iPad	7%	6%			
Mac	11%	12%			
Wearables, Home and Accessories	10%	7%			
Services	20%	17%			

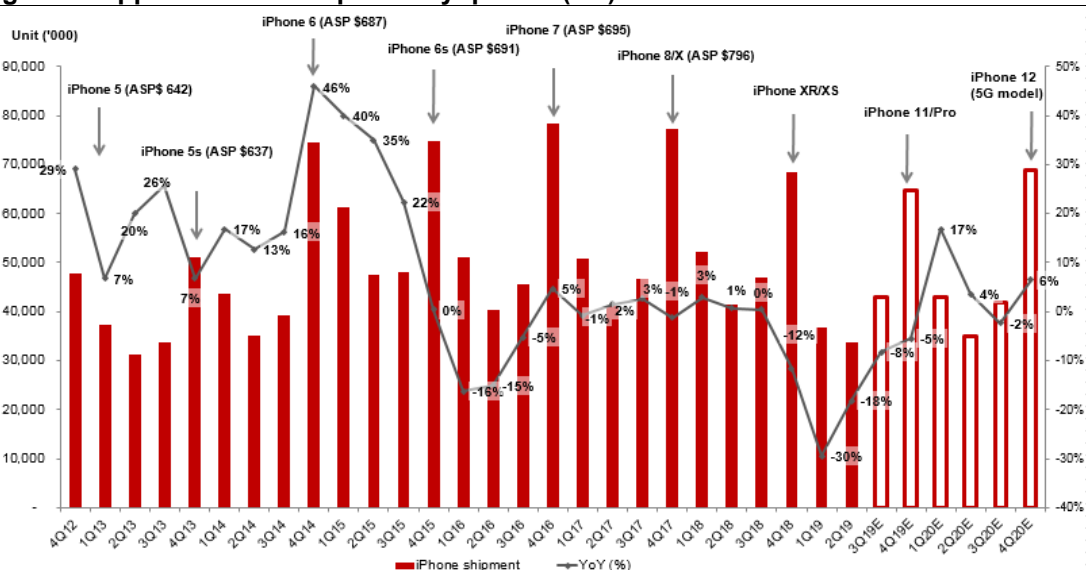
Source: Bloomberg, Company data, CMBIS

Figure 2: 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	45%	3%			52%	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 3: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIS

Figure 4: Peers Comparison

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
<b>Optics</b>												
Sunny Optical	2382 HK	Buy	17,746	118.10	140.0	19%	33.7	23.2	9.7	7.5	28.9	32.4
Q Tech	1478 HK	Buy	1,522	10.20	9.5	-7%	25.1	19.3	4.1	3.5	16.4	18.0
Truly	732 HK	NR	428	1.01	NA	NA	8.2	4.4	0.4	0.4	5.1	8.3
Cowell	1415 HK	NR	133	1.26	NA	NA	12.3	6.6	0.4	0.4	5.1	5.2
Largan	3008 TT	NR	19,651	4320	NA	NA	20.7	17.6	4.7	3.9	24.6	24.9
Genius	3406 TT	NR	1,454	440	NA	NA	21.9	14.0	4.9	3.8	25.0	31.0
Primax	4915 TT	NR	952	63.90	NA	NA	12.9	11.5	1.9	1.6	14.9	15.0
Lite-On	2301 TT	NR	3,848	49.50	NA	NA	13.9	12.8	1.5	1.5	11.3	11.5
O-Film	002456 CH	NR	4,304	11.09	NA	NA	39.4	19.0	3.0	2.7	9.5	13.1
Samsung Elec	009150 KS	NR	7,215	114500	NA	NA	14.7	16.7	1.6	1.5	11.6	9.5
Lg Innotek	011070 KS	NR	2,448	120000	NA	NA	15.3	10.9	1.2	1.1	8.5	11.0
Partron	091700 KS	NR	549	12000	NA	NA	9.1	8.4	1.7	1.4	21.2	19.4
<b>Average</b>							<b>18.9</b>	<b>13.7</b>	<b>2.9</b>	<b>2.5</b>	<b>15.2</b>	<b>16.6</b>
<b>Acoustics/Haptics</b>												
AAC Tech	2018 HK	Sell	7,864	49.30	29.6	-40%	27.3	20.8	2.7	2.5	9.9	12.0
Goertek	002241 CH	Hold	8,556	19.03	9.1	-52%	50.1	44.3	3.8	3.6	7.6	8.1
Shenzhen Sunwa	300136 CH	NR	5,559	41.72	NA	NA	35.3	27.1	8.1	6.3	24.3	24.2
Jinlong	300032 CH	NR	342	3.03	NA	NA	-	-	-	-	-	-
Merry	2439 TT	NR	1,003	151	NA	NA	11.3	10.3	2.4	2.5	25.5	26.0
Knowles	KN US	NR	1,947	21.27	NA	NA	19.0	16.5	1.6	1.6	8.8	9.1
Nidec	6594 JP	NR	44,293	15980	NA	NA	40.2	41.0	4.7	4.4	12.2	11.2
Alps Alpine	6770 JP	NR	4,747	2156	NA	NA	18.1	15.7	1.4	1.3	8.4	8.3
<b>Average</b>							<b>28.8</b>	<b>25.1</b>	<b>3.5</b>	<b>3.2</b>	<b>13.8</b>	<b>14.1</b>
<b>Connector</b>												
FIT Hon Teng	6088 HK	Buy	2,760	3.21	3.8	17%	10.7	9.4	1.3	1.1	12.1	12.2
Luxshare	002475 CH	Buy	24,145	33.85	32.1	-5%	36.4	26.4	6.9	5.5	18.9	20.8
TE	TEL US	NR	30,285	90.15	NA	NA	16.3	16.6	2.9	2.8	17.4	16.3
Amphenol	APH US	NR	29,892	100.82	NA	NA	27.6	25.4	7.3	6.6	27.0	26.4
Delphi	DLPH US	NR	1,155	13.26	NA	NA	5.0	4.7	2.6	1.9	57.8	46.6
Finisar	FNSR US	NR	2,855	NA	NA	NA	25.3	21.6	1.7	1.7	7.1	-
<b>Average</b>							<b>20.2</b>	<b>17.4</b>	<b>3.8</b>	<b>3.3</b>	<b>23.4</b>	<b>24.5</b>
<b>Casing</b>												
BYDE	285 HK	Buy	3,887	13.06	15.0	15%	17.7	13.8	1.6	1.4	8.8	10.3
Tongda	698 HK	Buy	529	0.64	0.9	42%	5.0	4.2	0.6	0.5	11.7	12.8
TK Group	2283 HK	Buy	393	3.56	4.1	15%	7.7	6.4	2.3	2.3	29.7	35.7
Ju Teng	3336 HK	NR	272	1.84	NA	NA	9.8	7.5	0.4	0.3	2.5	4.1
FIH	2038 HK	NR	1,174	1.09	NA	NA	-	13.0	0.6	0.6	(16.2)	4.2
Everwin	300115 CH	NR	1,910	14.51	NA	NA	35.4	27.1	2.9	2.6	8.2	9.9
Lens Tech	300433 CH	NR	7,355	13.10	NA	NA	32.5	23.5	2.8	2.5	9.7	12.3
Chaozhou Three	300408 CH	NR	4,643	18.76	NA	NA	26.6	21.1	4.2	3.7	14.5	17.7
Casetek	5264 TT	NR	758	56.00	NA	NA	93.4	16.8	0.7	0.7	0.7	3.6
Catcher	2474 TT	NR	6,514	259.5	NA	NA	13.6	10.6	1.3	1.2	9.3	11.7
Jabil	JBL US	NR	5,726	37.51	NA	NA	12.6	10.9	3.4	2.9	24.8	27.1
<b>Average</b>							<b>25.4</b>	<b>14.1</b>	<b>1.9</b>	<b>1.7</b>	<b>9.4</b>	<b>13.6</b>

Source: Bloomberg, CMBIS

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