

China Technology Sector

iPhone 12 launch as expected; Wireless trend to benefit Luxshare/Goertek/FIT Hon Teng

As anticipated, Apple announced four iPhone 12 models (12 mini, 12, 12 Pro, 12 Pro Max), featuring 1) 5G support (including mmWave), 2) 3D LiDAR sensors in top two models, 3) 12 Pro Max with 6.7" screen (largest screen ever), and 4) removal of in-box charger adapter and earpods. Apple also launched HomePod Mini at \$99 with improved sound quality and interoperability feature across Apple devices. Overall, we think both spec and pricing came as expected, and iPhone 12 is set to be Apple's most important product cycle since iPhone 6 in 2014. We continue to favor Apple supply chain over Android camp, and reiterate Buy on Luxshare/Goertek for share gain and AirPods/Watch, FIT Hon Teng for Belkin TWS/wireless charger, and BYDE for Apple share gain and Watch components.

- iPhone 12 is the most important iPhone cycle since 2014.** We think new iPhone's major upgrades focus on camera improvement whereas top two models (12 Pro, 12 Pro Max) will come with 3D LiDAR sensors that can enhance AR, autofocus, and dark shots, while cheaper models feature dual-cam systems. Also, all iPhones 12 will exclude charger adapter and in-box earpods, which is largely in line and benefits wearables/accessories suppliers. iPhone 12/12 Mini will be available for pre-order on 16 Oct (shipment on 23 Oct), while 12 Pro/Pro Max can be pre-ordered on 6 Nov (shipment on 13 Nov). Starting price at \$699 for iPhone 12 mini is also in-line with expectations.
- HomePod mini to enhance smart home ecosystem.** HomePod mini priced at \$99 will come with UWB (ultra wide band) feature which allows Siri to manage multiple devices through Apple smart home system. While its price is more expensive than peers such as Google Nest mini and Amazon Echo Dot, we think HomePod mini is regarded as home hub to access all Apple smart home accessories, and it is well positioned to penetrate into existing large Apple TV user base.
- Expect strong 5G iPhone cycle in 4Q20-1H21E.** Given one-month launch delay this year, we estimate iPhone shipment will decline 3% YoY to 45mn in 3Q20E and then rebound 2%/36% YoY to 75mn/50mn in 4Q20E/1Q21E. We expect further upside if overseas carriers (e.g. US) plan to accelerate 5G subscriber penetration by offering attractive subsidy or trade-in plans.
- Prefer Luxshare, Goertek, FIT and BYDE for wireless/wearables trend.** Since most components will be under ASP pressure due to higher 5G-semi BOM cost in iPhone 12, we prefer Apple names with share gain and wireless/wearables beneficiaries. We reiterate Buy on Luxshare/Goertek as AirPods suppliers, FIT Hon Teng for Belkin TWS/wireless charger, and BYDE for Apple share gain and iPad/Watch components.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE
AAC Tech	2018 HK	Hold	6,931	44.45	47.5	7%	28.7	21.0	2.4	8.3	
FIT Hon Teng	6088 HK	Buy	2,789	3.14	4.1	31%	16.6	11.4	1.2	7.3	
BYDE	285 HK	Buy	12,560	43.20	50.4	17%	14.9	13.9	3.9	26.3	
Luxshare	002475 CH	Buy	63,561	62.00	74.2	20%	46.6	35.0	11.7	25.2	
Tongda	698 HK	Hold	372	0.45	0.5	12%	15.9	6.4	0.4	2.8	
Goertek	002241 CH	Buy	20,611	43.70	*46.0	5%	57.5	38.0	7.9	13.7	

Source: Bloomberg, CMBIS estimates, * TP under review

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China Technology Sector

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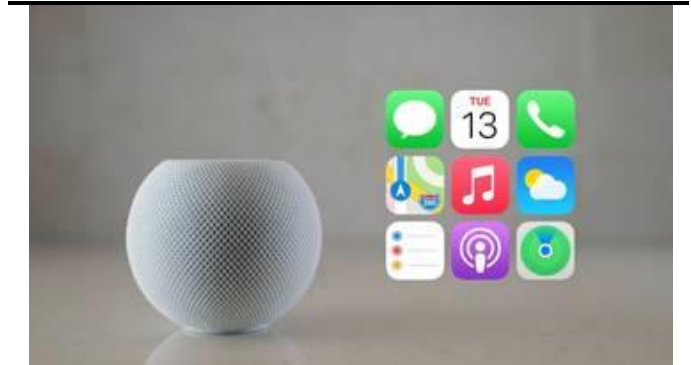
Focus Charts

Figure 1: Apple 12 and iPhone 12 Mini



Source: Apple

Figure 2: HomePod mini



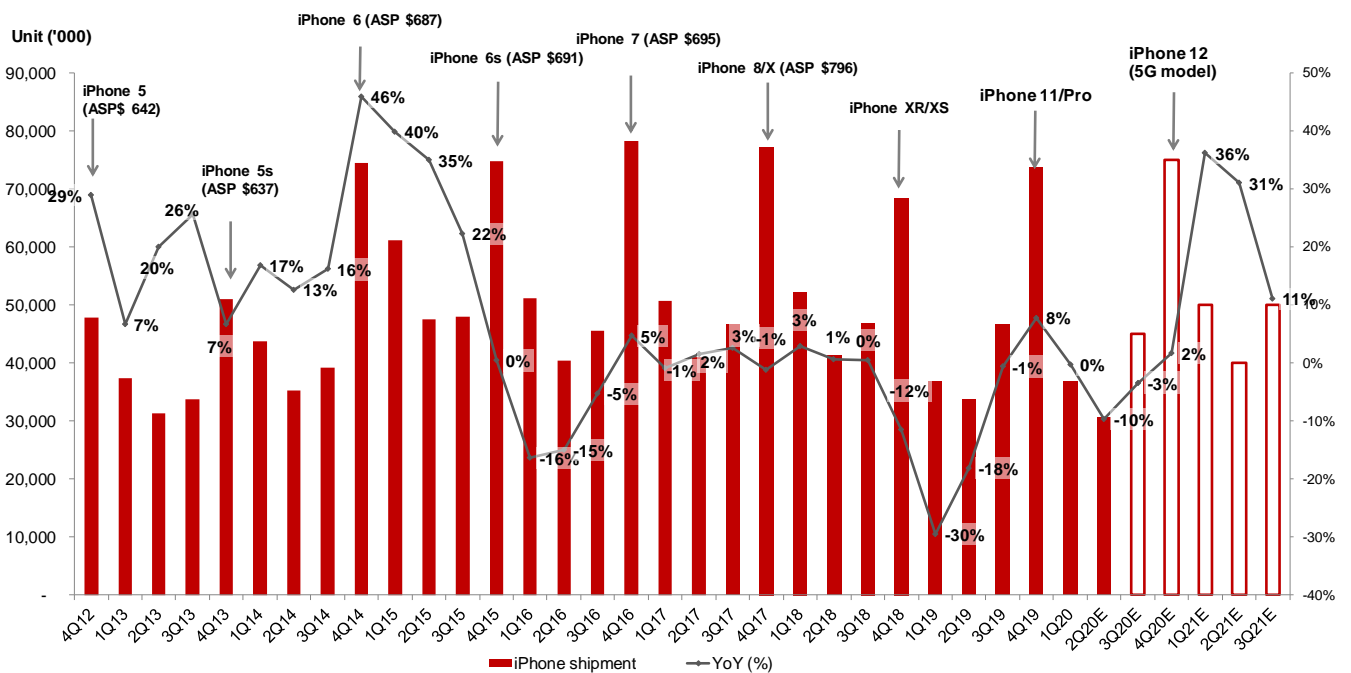
Source: Apple

Figure 3: Supply chain mapping and sales mix exposure (2021)

Company	Ticker	Apple	Huawei	Samsung	Other CN brands	Others	Major handset 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
Sunny Optical	2382 HK		5%	15%	65%	15%	Camera module, handset/auto lens sets
BYDE	285 HK	30%	5%	15%	35%	15%	Metal/glass/plastics casing, ODM/OEM
Tongda	698 HK	20%	5%	10%	35%	25%	Metal/plastic casing, waterproof
Q-Tech	1478 HK		5%		85%	15%	Camera module/lens, fingerprint
TK Group	2283 HK	10%				90%	Plastic molding
Truly	732 HK			3%	62%	35%	CCM, fingerprint, display modules
Cowell	1445 HK	90%		5%		5%	Camera Module
Luxshare	002475 CN	60%	10%	3%		27%	Wireless, AirPods, Watch, acoustics/haptics, EMS
Goertek	002241 CN	45%	5%	10%	15%	25%	Acoustics, AirPods, Watch, AR/VR, Wearables
O-film	002456 CN	15%	5%	15%	55%	10%	CCM, fingerprint, touch panel
Lens Tech	300433 CN	50%	5%	10%	20%	15%	Glass/metal casing

Source: Company data, CMBIS estimates

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



Source: Company data, CMBIS estimates

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 (%)	
							FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Optics												
Sunny Optical	2382 HK	Buy	17,917	126.60	146.1	15%	29.0	21.4	7.5	5.8	26.0	27.1
Q Tech	1478 HK	Buy	1,473	9.74	16.6	70%	12.8	10.6	2.8	2.3	22.0	21.8
Truly	732 HK	NR	416	0.98	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	600	5.59	NA	NA	12.2	10.2	2.1	2.0	12.2	15.9
Largan	3008 TT	NR	13,863	3090	NA	NA	15.6	13.9	2.8	2.5	19.1	19.2
Genius	3406 TT	NR	2,196	569	NA	NA	19.6	13.7	4.0	3.3	22.3	25.1
Primax	4915 TT	NR	691	44.00	NA	NA	9.3	8.8	1.4	1.3	13.0	16.3
Lite-On	2301 TT	NR	3,720	45.75	NA	NA	9.9	9.9	1.4	1.3	14.2	13.8
O-Film	002456 CH	NR	6,127	15.52	NA	NA	30.3	22.4	3.7	3.2	12.3	14.5
Samsung Elec	009150 KS	NR	9,264	141000	NA	NA	22.3	16.0	1.9	1.7	9.0	11.3
Lg Innotek	011070 KS	NR	3,358	162000	NA	NA	11.1	9.2	1.5	1.3	14.8	15.5
Partron	091700 KS	NR	486	10300	NA	NA	19.9	9.6	1.5	1.3	7.7	14.7
Average							17.5	13.2	2.8	2.4	15.7	17.8
Acoustics/Haptics												
AAC Tech	2018 HK	Hold	6,931	44.45	47.5	7%	28.7	21.0	2.4	2.2	8.3	10.6
Goertek	002241 CH	Buy	20,611	43.70	*46.0	5%	57.5	38.0	7.9	6.8	13.7	18.0
Luxshare	002475 CH	Buy	63,561	62.00	74.2	20%	46.6	35.0	11.7	9.0	25.2	25.8
Sunway	300136 CH	NR	7,557	51.53	NA	NA	37.4	26.8	8.4	6.4	23.2	24.5
Merry	2439 TT	NR	1,105	151	NA	NA	15.0	12.3	2.6	2.5	16.8	20.4
Knowles	KN US	NR	1,508	16.46	NA	NA	33.1	14.8	1.2	1.2	3.5	7.7
Nidec	6594 JP	NR	57,063	10175	NA	NA	71.0	55.3	5.7	5.8	8.6	10.8
Alps Alpine	6770 JP	NR	3,131	1504	NA	NA	35.1	53.0	0.9	0.9	2.2	1.9
Average							40.5	32.0	5.1	4.4	12.7	15.0
Connector												
FIT Hon Teng	6088 HK	Buy	2,789	3.14	4.1	31%	16.6	11.4	1.2	1.1	7.3	9.8
Luxshare	002475 CH	Buy	63,561	62.00	74.2	20%	46.6	35.0	11.7	9.0	25.2	25.8
TE	TEL US	NR	35,443	107.33	NA	NA	27.1	21.5	3.8	3.4	10.4	16.6
Amphenol	APH US	NR	33,976	114.76	NA	NA	34.0	28.3	7.0	6.4	21.7	22.9
Delphi	DLPH US	NR	1,470	17.02	NA	NA	-	11.9	13.3	8.6	(5.4)	27.2
Average							31.1	21.6	7.4	5.7	11.8	20.5
EMS/OEM												
BYDE	285 HK	Buy	12,560	43.20	50.4	17%	14.9	13.9	3.9	3.1	26.3	22.4
Luxshare	002475 CH	Buy	63,561	62.00	74.2	20%	46.6	35.0	11.7	9.0	25.2	25.8
Hon Hai Precision	2317 TT	NR	38,059	78.70	NA	NA	10.5	8.7	0.8	0.8	8.0	9.4
Pegatron	4938 TT	NR	5,832	64.10	NA	NA	9.3	9.8	1.0	1.0	11.0	10.1
Wistron	3231 TT	NR	2,838	28.85	NA	NA	10.5	9.6	1.1	1.0	9.9	10.6
Average							29.0	20.9	6.6	5.0	13.6	19.9
Casing												
BYDE	285 HK	Buy	12,560	43.20	50.4	17%	14.9	13.9	3.9	3.1	26.3	22.4
Tongda	698 HK	Hold	372	0.45	0.5	12%	15.9	6.4	0.4	0.4	2.8	6.9
TK Group	2283 HK	Buy	270	2.51	*2.3	-7%	4.5	3.9	1.6	1.6	35.7	41.7
Ju Teng	3336 HK	NR	360	2.39	NA	NA	7.6	8.4	0.4	0.4	5.6	4.9
Everwin	300115 CH	NR	3,662	26.56	NA	NA	46.5	32.6	5.1	4.6	11.0	14.0
Lens Tech	300433 CH	NR	23,439	36.46	NA	NA	37.1	29.2	5.8	4.9	17.0	18.1
Chaozhou Three	300408 CH	NR	8,212	32.78	NA	NA	45.7	34.5	6.6	5.7	14.2	16.1
Casetek	5264 TT	NR	1,268	86.60	NA	NA	249.1	25.1	1.2	1.2	1.3	4.5
Catcher	2474 TT	NR	4,770	180.0	NA	NA	8.6	9.5	0.9	0.8	11.9	9.4
Jabil	JBL US	NR	5,520	36.74	NA	NA	14.2	9.1	3.4	2.5	22.6	31.2
Average							44.4	17.3	2.9	2.5	14.8	16.9

Source: Bloomberg, CMBIS estimates, * TP under review

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