

# China Technology Sector

## Apple FY3Q well above despite COVID-19; Positioned for strong 5G iPhone cycle ahead

Apple delivered stronger-than-expected FY3Q (CY2Q20) results with EPS of US\$2.61 (+19% YoY) and revenue of US\$59.7bn (+11% YoY), which are 26% and 14% ahead of consensus, driven by strong cycle of iPhone 11, launch of cheaper iPhone SE and Mac/iPad demand boosted by WFH trend. Looking ahead into FY4Q, mgmt. expected strong growth across all products, and also confirmed iPhone supply to delay for a few weeks (vs late Sep last year), which is fully reflected in share price in our view. We continue to favor Apple supply chain over Android camp given upcoming 5G iPhone cycle and AirPods/ Watch momentum. We reiterate Buy on Luxshare for AirPods/ Watch strength, BYDE for share gain in iPad/Watch, and FIT Hon Teng for 2H iPhone recovery.

- **Strength across iPhone/iPad/Mac despite pandemic; iPhone 12 delay as expected.** Key highlights from earnings call include 1) iPhone revenue rebounded 2% YoY (vs -7% in FY2Q) driven by iPhone 11 cycle, cheaper iPhone SE and store reopening, 2) China/Japan returned positive sales growth of 2%/22% YoY (vs -7%/-6% in FY2Q), 3) strong Mac/iPad (31%/22% YoY) boosted by WFH demand, despite inventory shortages, 4) solid Service growth (+15% YoY) continued, 5) no FY4Q guidance in-line, and 6) iPhone 12 launch to delay for "a few weeks" as anticipated given supply chain disruption.
- **Expect strong 5G iPhone cycle in 4Q20-1H21E.** Mgmt. comment on new iPhone delay is in-line with our earlier view that production will be delayed by around one month given supply chain disruption in China. We anticipate four new 5G iPhones this fall: a 5.4' OLED model (dual-cam), a 6.1 OLED model (dual-cam), a 6.1' OLED model (tri-cam + LiDAR) and 6.7' OLED model (tri-cam + LiDAR). We estimate iPhone shipment will decline 12% YoY in 3Q20E and then rebound 1%/36% YoY in 4Q20E/1Q21E.
- **Accumulate ahead of iPhone launch; Prefer Luxshare, BYDE and FIT Hon Teng.** Overall, we remain positive on Apple plays over Android names given upcoming iPhone cycle and AirPods/Watch momentum. We believe 5G model launch delays are largely priced in, and supply chain recovery will be boosted by channel restocking ahead of iPhone launch. We reiterate Buy on Luxshare given AirPods leadership and iPhone OEM biz, BYDE for share gain in iPad/Watch and FIT Hon Teng for 2H recovery. We also believe AAC Tech will benefit but maintain Hold for rich valuation.

### Valuation Table

| Name         | Ticker    | Rating | Mkt Cap<br>(USD mn) | Price<br>(LC) | TP<br>(LC) | Up/Down<br>-side | P/E (x)<br>FY20E FY21E | P/B (x)<br>FY20E FY21E | ROE<br>FY20E FY21E |
|--------------|-----------|--------|---------------------|---------------|------------|------------------|------------------------|------------------------|--------------------|
| AAC Tech     | 2018 HK   | Hold   | 9,286               | 59.55         | 45.3       | -24%             | 37.6 27.8              | 3.2 8.5                |                    |
| FIT Hon Teng | 6088 HK   | Buy    | 3,214               | 3.62          | 4.2        | 15%              | 21.3 13.0              | 1.4 6.6                |                    |
| BYDE         | 285 HK    | Buy    | 7,646               | 26.30         | *22.2      | NA               | 32.3 24.3              | 2.9 9.0                |                    |
| Luxshare     | 002475 CH | Buy    | 56,430              | 56.60         | 74.2       | 31%              | 42.6 32.0              | 10.7 25.2              |                    |
| Tongda       | 698 HK    | Hold   | 372                 | 0.45          | 0.5        | 12%              | 20.2 6.3               | 0.4 2.2                |                    |
| Goertek      | 002241 CH | Hold   | 18,016              | 38.89         | *9.1       | NA               | 90.4 81.0              | 7.3 8.1                |                    |

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

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#### China Technology Sector

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## Focus Charts

**Figure 1: Apple's FY3Q20 (CY2Q20) results review**

| Apple Inc (AAPL US)<br>US\$ bn | Actual<br>FY3Q20 | FY3Q19 | YoY %  | Consensus<br>FY3Q20 | Diff (%) |
|--------------------------------|------------------|--------|--------|---------------------|----------|
| Revenue                        | 59.7             | 53.8   | 11%    | 52.3                | 14%      |
| EPS (cent US\$)                | 2.61             | 2.20   | 19%    | 2.07                | 26%      |
| GPM                            | 38.0%            | 37.6%  | 0.4ppt | 38.0%               | 0.0ppt   |
| Product                        | 46.5             | 42.4   | 10%    | 38.3                | 21%      |
| iPhone                         | 26.4             | 26.0   | 2%     | 21.3                | 24%      |
| iPad                           | 6.6              | 5.0    | 31%    | 5.0                 | 31%      |
| Mac                            | 7.1              | 5.8    | 22%    | 5.9                 | 20%      |
| Wearables, Home and            | 6.5              | 5.5    | 17%    | 6.1                 | 6%       |
| Services                       | 13.2             | 11.5   | 15%    | 13.1                | 0%       |

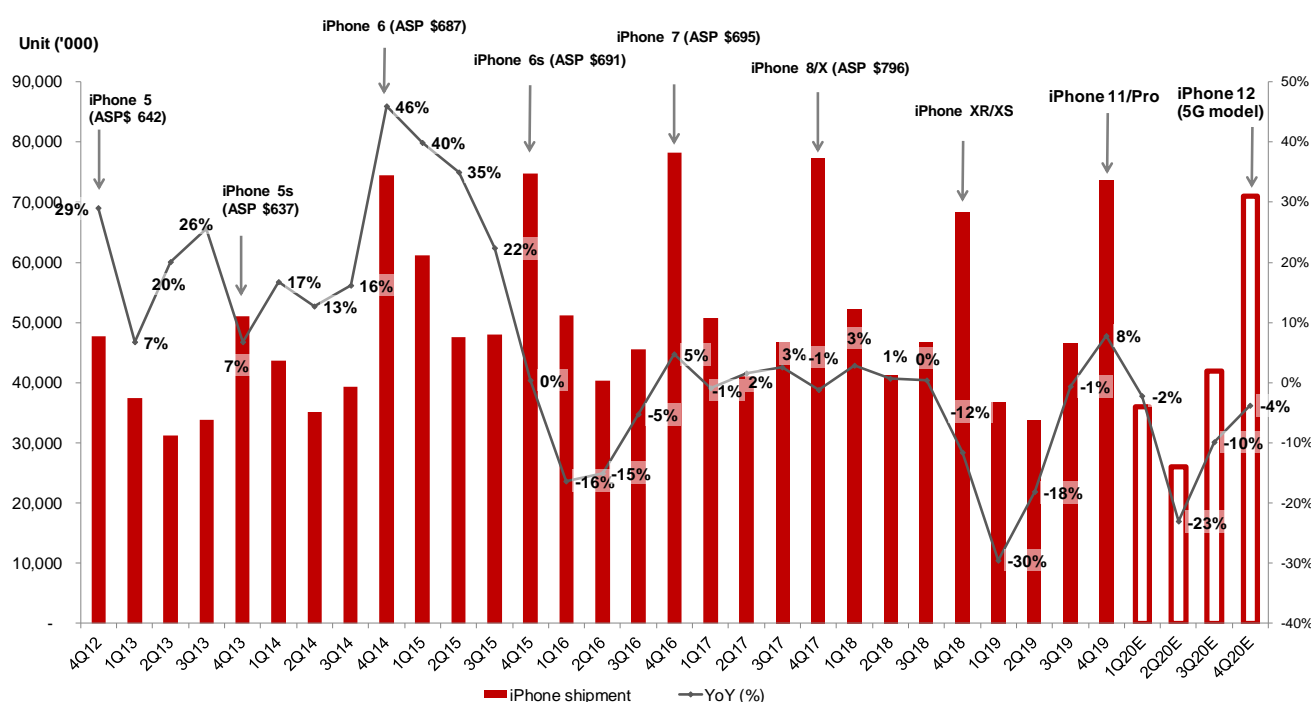
Source: Bloomberg, Company data, CMBIS

**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, optics |
| 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/plastic/glass casing, ODM/OEM               |
| Tongda        | 698 HK    | 20%   | 5%     | 10%     | 35%             | 25%    | Metal/plastic casing, waterproof components       |
| Q-Tech        | 1478 HK   |       | 20%    |         | 70%             | 15%    | Camera module/lens, fingerprint modules           |
| TK Group      | 2283 HK   | 10%   |        |         |                 | 90%    | Plastic molding                                   |
| Truly         | 732 HK    |       |        | 3%      | 62%             | 35%    | Camera module, fingerprint, display               |
| Cowell        | 1445 HK   | 90%   |        | 5%      |                 | 5%     | Camera Module                                     |
| Luxshare      | 002475 CN | 60%   | 10%    | 3%      |                 | 27%    | Wireless, AirPods, watch, acoustics/haptics       |
| Goertek       | 002241 CN | 35%   | 15%    | 10%     | 10%             | 30%    | Acoustics, AirPods, AR/VR, Wearables              |
| O-film        | 002456 CN | 15%   | 20%    | 10%     | 45%             | 10%    | Camera, fingerprint, touch panel modules          |
| 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

| Figure 1: Core Companies |           |        |                      |               |            |                  |         |       |         |       |         |       |
|--------------------------|-----------|--------|----------------------|---------------|------------|------------------|---------|-------|---------|-------|---------|-------|
| Company                  | Ticker    | Rating | Mkt Cap<br>(US\$ mn) | Price<br>(LC) | TP<br>(LC) | Up/Down<br>-side | P/E (x) |       | P/B (x) |       | ROE (%) |       |
|                          |           |        |                      |               |            |                  | FY20E   | FY21E | FY20E   | FY21E | FY20E   | FY21E |
| Optics                   |           |        |                      |               |            |                  |         |       |         |       |         |       |
| Sunny Optical            | 2382 HK   | Buy    | 20,451               | 144.50        | 148.0      | 2%               | 33.7    | 24.6  | 8.7     | 6.7   | 25.9    | 27.2  |
| Q Tech                   | 1478 HK   | Buy    | 1,561                | 10.32         | 16.0       | 55%              | 14.7    | 11.6  | 3.0     | 2.5   | 20.7    | 21.5  |
| Truly                    | 732 HK    | NR     | 390                  | 0.92          | NA         | NA               | -       | -     | -       | -     | -       | -     |
| Cowell                   | 1415 HK   | NR     | 352                  | 3.28          | NA         | NA               | 8.6     | 7.2   | 1.1     | 1.0   | 11.2    | 13.8  |
| Largan                   | 3008 TT   | NR     | 17,445               | 3825          | NA         | NA               | 17.8    | 14.7  | 3.5     | 3.0   | 21.4    | 22.7  |
| Genius                   | 3406 TT   | NR     | 2,519                | 668           | NA         | NA               | 22.3    | 15.4  | 4.7     | 3.8   | 22.7    | 26.2  |
| Primax                   | 4915 TT   | NR     | 637                  | 41.75         | NA         | NA               | 8.3     | 7.6   | 1.3     | 1.2   | 15.5    | 16.4  |
| Lite-On                  | 2301 TT   | NR     | 3,635                | 45.70         | NA         | NA               | 11.8    | 11.2  | 1.4     | 1.3   | 11.5    | 11.8  |
| O-Film                   | 002456 CH | NR     | 7,198                | 18.71         | NA         | NA               | 38.4    | 27.6  | 4.7     | 4.0   | 11.7    | 14.1  |
| Samsung Elec             | 009150 KS | NR     | 9,025                | 144500        | NA         | NA               | 24.2    | 17.4  | 2.0     | 1.8   | 8.3     | 10.6  |
| Lg Innotek               | 011070 KS | NR     | 3,206                | 162000        | NA         | NA               | 11.1    | 9.3   | 1.5     | 1.3   | 14.5    | 15.1  |
| Partron                  | 091700 KS | NR     | 482                  | 10650         | NA         | NA               | 15.5    | 9.3   | 1.4     | 1.3   | 10.4    | 15.1  |
| Average                  |           |        |                      |               |            |                  | 18.8    | 14.2  | 3.0     | 2.5   | 15.8    | 17.7  |
| Acoustics/Haptics        |           |        |                      |               |            |                  |         |       |         |       |         |       |
| AAC Tech                 | 2018 HK   | Hold   | 9,286                | 59.55         | 45.3       | -24%             | 37.6    | 27.8  | 3.2     | 3.0   | 8.5     | 10.7  |
| Goertek                  | 002241 CH | Hold   | 18,016               | 38.89         | *9.1       | NA               | 90.4    | 81.0  | 7.3     | 6.9   | 8.1     | 8.6   |
| Luxshare                 | 002475 CH | Buy    | 56,430               | 56.60         | 74.2       | 31%              | 42.6    | 32.0  | 10.7    | 8.3   | 25.2    | 25.8  |
| Sunway                   | 300136 CH | NR     | 6,953                | 50.28         | NA         | NA               | 35.8    | 26.4  | 8.0     | 6.2   | 22.8    | 23.6  |
| Merry                    | 2439 TT   | NR     | 1,121                | 158           | NA         | NA               | 16.5    | 12.7  | 2.9     | 2.7   | 17.2    | 21.3  |
| Knowles                  | KN US     | NR     | 1,341                | 14.63         | NA         | NA               | 27.9    | 13.3  | 1.1     | 1.1   | 3.5     | 7.7   |
| Nidec                    | 6594 JP   | NR     | 47,648               | 8396          | NA         | NA               | 59.0    | 47.7  | 4.8     | 4.8   | 8.6     | 10.7  |
| Alps Alpine              | 6770 JP   | NR     | 2,822                | 1352          | NA         | NA               | 31.5    | 66.1  | 0.8     | 0.8   | 2.2     | 1.5   |
| Average                  |           |        |                      |               |            |                  | 42.7    | 38.4  | 4.8     | 4.2   | 12.0    | 13.7  |
| Connector                |           |        |                      |               |            |                  |         |       |         |       |         |       |
| FIT Hon Teng             | 6088 HK   | Buy    | 3,214                | 3.62          | 4.2        | 15%              | 21.3    | 13.0  | 1.4     | 1.3   | 6.6     | 9.9   |
| Luxshare                 | 002475 CH | Buy    | 56,430               | 56.60         | 74.2       | 31%              | 42.6    | 32.0  | 10.7    | 8.3   | 25.2    | 25.8  |
| TE                       | TEL US    | NR     | 29,663               | 89.89         | NA         | NA               | 23.4    | 18.8  | 3.3     | 3.2   | 13.3    | 17.6  |
| Amphenol                 | APH US    | NR     | 31,577               | 105.83        | NA         | NA               | 31.9    | 26.8  | 6.4     | 6.0   | 21.3    | 22.4  |
| Delphi                   | DLPH US   | NR     | 1,404                | 16.26         | NA         | NA               | -       | 13.3  | 9.1     | 7.5   | (0.8)   | 26.3  |
| Average                  |           |        |                      |               |            |                  | 29.8    | 20.8  | 6.2     | 5.2   | 13.1    | 20.4  |
| Casing                   |           |        |                      |               |            |                  |         |       |         |       |         |       |
| BYDE                     | 285 HK    | Buy    | 7,646                | 26.30         | *22.2      | NA               | 32.3    | 24.3  | 2.9     | 2.7   | 9.0     | 10.9  |
| Tongda                   | 698 HK    | Hold   | 372                  | 0.45          | 0.5        | 12%              | 20.2    | 6.3   | 0.4     | 0.4   | 2.2     | 7.1   |
| TK Group                 | 2283 HK   | Buy    | 220                  | 2.05          | 2.3        | 14%              | 3.7     | 3.2   | 1.3     | 1.3   | 35.7    | 41.7  |
| Ju Teng                  | 3336 HK   | NR     | 400                  | 2.66          | NA         | NA               | 8.4     | 9.5   | 0.4     | 0.4   | 5.5     | 4.8   |
| Everwin                  | 300115 CH | NR     | 2,977                | 22.92         | NA         | NA               | 42.3    | 30.2  | 4.3     | 3.9   | 10.2    | 12.0  |
| Lens Tech                | 300433 CH | NR     | 19,651               | 31.40         | NA         | NA               | 34.5    | 28.9  | 5.0     | 4.4   | 16.0    | 16.4  |
| Chaozhou Three           | 300408 CH | NR     | 6,996                | 28.20         | NA         | NA               | 41.9    | 31.1  | 5.9     | 5.1   | 14.1    | 16.2  |
| Casetek                  | 5264 TT   | NR     | 951                  | 66.50         | NA         | NA               | -       | 24.7  | 0.9     | 0.9   | (0.3)   | 4.9   |
| Catcher                  | 2474 TT   | NR     | 5,658                | 216.0         | NA         | NA               | 10.0    | 9.2   | 1.0     | 1.0   | 11.1    | 11.3  |
| Jabil                    | JBL US    | NR     | 5,079                | 33.73         | NA         | NA               | 13.0    | 9.4   | 3.1     | 2.9   | 22.6    | 31.1  |
| Average                  |           |        |                      |               |            |                  | 22.9    | 17.7  | 2.5     | 2.3   | 12.6    | 15.6  |

Source: Bloomberg, CMBIS, \* TP under review

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