

China Technology Sector

Time to revisit China 5G supply chain; Positive catalysts on the horizon

China MIIT recently announced China has built global largest 5G network with 718k BTS YTD (330k co-built co-share), largely in-line with our estimate. We expect China telco operators will initiate third phase of 5G BTS tenders in next few weeks, and 5G BTS net-adds will reach 800k in FY21E. Overall, we believe China 5G deployment will keep moderately advanced pace in 2021, and we recommend to revisit sector leaders who will benefit from 5G investment cycle, rising penetration of 5G smartphones and increasing internet traffic. Our top picks are ZTE-H, Innolight, Sunway and Shengyi Tech. Upcoming catalysts include 3rd phase of 5G BTS tenders, operators' 2021 capex budget and 4Q20 earnings.

- **China 5G BTS net-add on track to reach 600k in FY20E.** MIIT announced total 5G BTS net-adds is 588k as of mid-Dec, in line with our estimate of 600k. Current 5G network has made 5G services available in all Chinese cities at prefecture level and above. Total number of 5G BTS for China Mobile and China Unicom/China Telecom reached 390k/330k, and we estimate Huawei/ZTE accounted for 56%/31% market share in China.
- **Expect FY21E 5G BTS net-add to reach 800k-1mn.** Recent media news (e.g. China Daily) reported 5G BTS net-adds could reach 1mn in FY21E (vs 800k our est.), and we expect potential upside can come from further reduction of 5G equipment procurement cost. While official plan is not announced yet, we reiterate our optimistic view on 5G supply chain given unchanged positive tone of "moderately advanced 5G deployment in China". We believe 5G network will play a critical role as a foundation to promote development of digital ecosystem and industrial IoT.
- **Positive on sector leaders benefiting from 5G CAPEX cycle.** We believe major beneficiary is equipment vendors and its supply chain, as over 50% of Chinese operators' capex budget will be invested on 5G equipment and 5G-related investment. We also expect CBN to build 200k-400k 5G BTS for 700MHz network in FY21E, which offers further upside for suppliers. Our top pick is ZTE-H given its leading market position, global share gain and reasonable valuation. We also favor Innolight for 400G upgrade, 5G rollout, share gain and robust data growth, and Shengyi Tech on localization and content growth. We also like Sunway for antenna/RF/wireless charging upgrade. Risks include slower 5G deployment, weaker capex from cloud giants and higher ASP pressure.

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 FY20E
ZTE-H	763 HK	Buy	21,772	18.04	26.3	46%	14.8 10.5	1.5 10.1	
ZTE-A	000063 CH	Buy	21,772	30.57	41.2	35%	32.5 23.1	3.3 101	
Innolight	300308 CH	Buy	5,575	47.34	73.5	55%	39.0 26.6	4.3 11.01	
Sunway	300136 CH	Buy	5,559	36.17	64.3	78%	28.6 17.6	6.2 21.6	
Shengyi Tech	600183 CH	Buy	9,734	28.16	33.7	20%	34.3 25.1	6.4 18.6	
Shennan C.	002916 CH	Hold	8,081	102.4	129.1	26%	34.0 25.8	6.6 19.4	
China Tower	788 HK	Hold	26,106	1.16	1.3	13%	24.3 18.8	0.8 3.5	

Source: Bloomberg, CMBIS estimates

OUTPERFORM
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Valuation Summary

Figure 1: China 5G Supply Chain – Comparison

Company	Ticker	Rating	Mkt Cap (US\$ 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 (%) FY20E	ROE (%) FY21E
Equipment												
ZTE (H)	763 HK	Buy	21,772	18.04	26.3	46%	14.8	10.5	1.5	1.3	10.1	12.7
ZTE (A)	000063 CH	Buy	21,772	30.57	41.2	35%	32.5	23.1	3.3	2.9	10.1	12.7
Fiberhome	600498 CH	NR	4,282	21.73	NA	NA	42.4	28.1	2.3	2.2	6.2	8.6
Nokia	NOK US	NR	22,050	3.90	NA	NA	14.7	16.0	1.0	1.0	6.2	5.0
Ericsson	ERIC US	NR	39,496	11.77	NA	NA	18.7	16.0	3.6	3.2	17.5	18.1
Average							24.6	18.7	2.4	2.1	10.0	11.4
Optical component/transceiver												
Innolight	300308 CH	Buy	5,575	47.34	73.5	55%	39.0	26.6	4.3	3.7	11.0	14.1
Accelink Tech	002281 CH	NR	3,108	27.19	NA	NA	40.3	33.7	4.0	3.6	10.1	10.8
Eoptolink Tech	300502 CH	NR	3,112	51.95	NA	NA	41.3	29.7	9.0	7.1	24.9	26.2
HG Genuine	000988 CH	NR	3,640	23.57	NA	NA	34.8	33.3	3.5	3.1	10.1	10.9
FIT	6088 HK	NR	2,445	2.67	NA	NA	14.8	11.1	1.1	1.0	7.6	9.5
Lumentum	LITE US	NR	7,470	98.94	NA	NA	19.5	16.1	4.3	3.9	24.0	25.1
Finisar	IIVI US	NR	8,110	78.19	NA	NA	35.8	23.1	3.6	2.8	11.8	15.1
Sumitomo	8053 JT	NR	16,451	1346.00	NA	NA	8.6	-	0.6	0.7	8.7	(4.6)
NeoPhotonics	NPTN US	NR	456	9.10	NA	NA	33.3	-	2.6	2.7	8.9	(4.3)
Cisco	CSCO US	NR	189,810	44.92	NA	NA	14.3	14.2	5.2	4.7	37.8	33.1
Average							28.2	23.5	3.8	3.3	15.5	13.6
Antenna												
Sunway	300136 CH	Buy	5,559	36.17	64.3	78%	28.6	17.6	6.2	4.6	21.6	26.2
Speed	300322 CH	NR	812	12.12	NA	NA	52.1	31.8	-	-	-	-
Amphenol	APH US	NR	38,842	129.84	NA	NA	35.9	30.7	7.7	7.1	23.3	24.5
Average							38.9	26.7	6.9	5.8	22.4	25.4
Wireless charging												
Sunway	300136 CH	Buy	5,559	36.17	64.3	78%	28.6	17.6	6.2	4.6	21.6	26.2
Luxshare	002475 CH	NR	60,295	55.58	NA	NA	54.3	38.3	10.0	10.6	27.6	29.1
Lingyi iTech	002600 CH	NR	13,748	12.55	NA	NA	36.6	25.7	3.6	2.9	15.8	18.5
Anjie Tech	002635 CH	NR	1,635	16.10	NA	NA	21.5	17.9	1.8	1.6	8.6	9.4
Amphenol	APH US	NR	38,842	129.84	NA	NA	35.9	30.7	7.7	7.1	23.3	24.5
Average							35.4	26.1	5.8	5.4	19.4	21.5
CCL												
Shengyi Tech	600183 CH	Buy	9,734	28.16	33.7	20%	34.3	25.1	6.4	5.6	18.6	22.3
Nanya	1303 TT	NR	19,820	70.60	NA	NA	30.5	19.7	1.6	1.5	5.4	7.9
ITEQ	6213 TT	NR	1,628	141.50	NA	NA	18.1	13.5	4.3	3.8	25.0	27.1
Kingboard	148 HK	NR	4,542	30.85	NA	NA	8.6	8.0	-	-	-	-
Sumitomo	4203 JT	NR	1,691	3480.00	NA	NA	15.6	19.7	0.9	0.9	6.2	4.9
Rogers	ROG US	NR	2,953	158.13	NA	NA	32.2	25.3	-	-	-	-
Average							23.2	18.6	3.3	3.0	13.8	15.5
PCB												
Shengyi Tech	600183 CH	Buy	9,734	28.16	33.7	20%	34.3	25.1	6.4	5.6	18.6	22.3
Shennan Circuits	002916 CH	Hold	8,081	102.48	129.1	26%	34.0	25.8	6.6	5.5	19.4	21.4
WUS	002463 CH	NR	4,945	18.09	NA	NA	23.9	19.8	5.2	4.3	22.9	23.2
Kinwon	603228 CH	NR	3,858	28.95	NA	NA	-	-	-	-	-	-
DSBJ	002384 CH	NR	7,014	25.68	NA	NA	30.0	22.4	4.3	3.7	14.5	17.3
Zhen Ding	4958 TT	NR	3,704	115.50	NA	NA	12.5	10.0	1.4	1.3	11.1	13.4
TTM	TTMI US	NR	1,468	13.75	NA	NA	13.5	11.0	1.0	1.0	8.8	8.9
UMTC	3037 TT	NR	4,590	85.30	NA	NA	30.0	22.6	2.8	2.6	8.8	11.8
Tripod	3044 TT	NR	2,205	119.00	NA	NA	10.6	9.8	1.7	1.6	16.3	16.0
Comped	2313 TT	NR	1,826	43.70	NA	NA	10.5	9.5	1.8	1.6	17.9	17.9
SEMCO	009150 KS	NR	12,043	167500.00	NA	NA	23.0	17.7	2.3	2.1	10.6	12.4
Average							22.1	17.3	3.5	3.0	15.4	16.9
Tower												
China Tower	788 HK	Hold	26,106	1.16	1.3	13%	24.3	18.8	0.8	0.8	3.5	4.4
Tower Bersama	TBIG IJ	NR	2,681	1700.00	NA	NA	34.8	28.2	6.2	5.6	20.3	21.7
Crown Castle	CCI US	NR	67,390	156.25	NA	NA	84.2	65.4	7.2	8.1	7.9	11.7
American Tower	AMT US	NR	98,202	221.07	NA	NA	51.4	39.7	35.1	47.2	40.4	74.7
China Comm	552 HK	NR	3,127	3.53	NA	NA	6.6	5.7	0.6	0.5	8.5	9.2
Average							40.3	31.6	10.0	12.4	16.1	24.3

Source: Bloomberg, CMBIS estimates

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