

China Technology

**OUTPERFORM
(Maintain)**

China smartphone: no signs of recovery in 4Q22E; too early to bottom fish

We expect global smartphone market to remain sluggish into 4Q22E, given weak consumer demand, macro uncertainties and lack of major spec upgrade. We estimate global/China smartphone market to decline 9%/15% YoY in FY22E. Recent reported data revealed that China smartphone sell-in/sell-through declined 31%/10% YoY in Jul (vs +9%/-8% in Jun), and global smartphone sell-through dropped 16.5% YoY in Jul (vs -16.1% in Jun). For 4Q22E, we believe the only bright spot is iPhone supply chain restocking, and we prefer related names such as Luxshare for iPhone/Watch/AirPods OEM, Goertek for share gain in Watch/ AirPods, and FIT Hon Teng/Tongda for iPhone shipment upside. Maintain HOLD for Sunny Optical, BYDE and AAC Tech.

- China smartphone: destocking in progress; 4Q22 weakness set to continue.** CAICT's July sell-in shipment announcement was delayed by one month, which was as weak as expected with -31.2% YoY (vs +9% YoY in Jun). By brand, Chinese brands (OVMH) dropped -29% YoY (vs -0.3% in Jun), and overseas brands (Apple, Samsung) declined -42% YoY (vs +227% YoY in Jun). Overall, 7M22 sell-in dropped 23% YoY, and demand weakness continued in July, showing no signs of recovery. Looking into 4Q22, we expect inventory destocking will continue, and high-base in 4Q21 will lead to widening YoY decline in 4Q22E, which will continue to weigh on the sector in near term.
- Global smartphone: Apple to gain share on iPhone 14 launch.** We expect global demand to remain weak into 4Q22E, due to inflation concerns in US/EU, currency depreciation in EM and lack of major upgrade. By region, China/US/India/Europe markets reported -10%/-5%/-13%/-29% YoY decline in July, suggesting that India/Europe are impacted most. By brand, we believe new iPhone14's cautious pricing strategy will offer a competitive position in the high-end segment, and we expect iPhone shipment of 235mn in FY22E (flattish, vs -9% YoY industry).
- Prefer Apple supply chain over Android; Top picks Luxshare, Goertek, FIT Hon Teng, Tongda.** Although Apple supply chain has underperformed over past month due to US-China tensions and rate hike, we believe iPhone 14 restocking will boost sector sentiment in 4Q22E. We prefer Apple names with share gain potential, such as Luxshare for iPhone/Watch/AirPods OEM, Goertek for Watch/AirPods and FIT Hon Teng/Tongda for iPhone shipment upside. Maintain HOLD on AAC Tech for margin concerns and Sunny Optical/BYDE for fair valuation.

Valuation Table

Name	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY22E FY23E	P/B (x) FY22E FY23E	ROE FY22E
Luxshare	002475 CH	BUY	35,363	34.91	*74.2	NA	24.5 18.5	5.4	22.8
Goertek	002241 CH	BUY	16,003	32.76	44.7	36%	20.5 16.6	3.5	17.1
FIT Hon Teng	6088 HK	BUY	1,056	1.14	1.8	56%	6.5 5.6	0.4	6.0
Tongda	698 HK	BUY	142	0.12	0.2	91%	3.8 2.9	0.1	2.3
AAC Tech	2018 HK	HOLD	2,177	14.14	14.0	-1%	16.7 11.6	0.7	4.0
Sunny Optical	2382 HK	HOLD	13,800	98.75	102.3	4%	35.4 24.0	4.2	11.8
BYDE	285 HK	HOLD	6,890	24.00	19.3	-20%	32.1 18.2	1.9	6.0

Source: Company data, CMBIGM estimates

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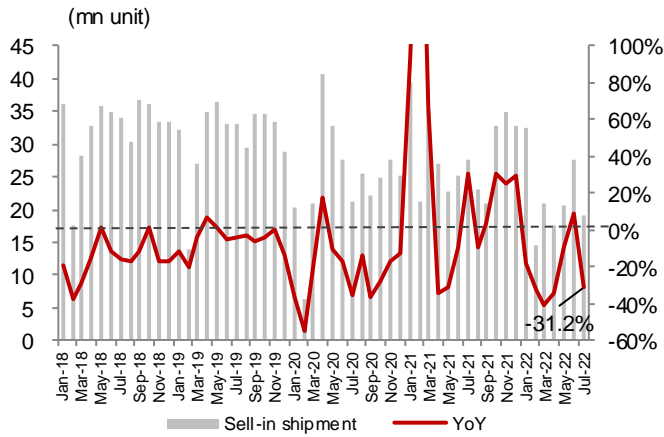
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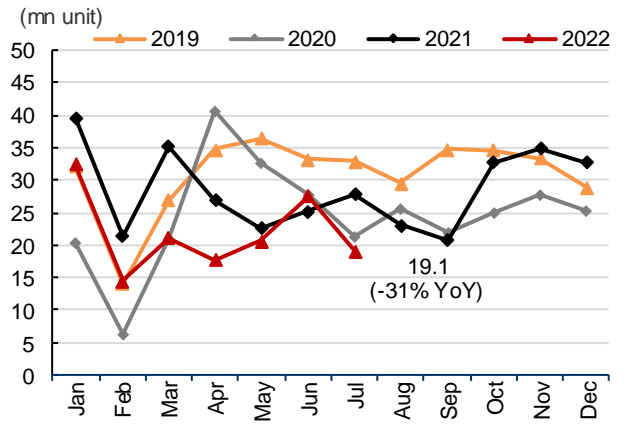
Focus Charts

Figure 1: China smartphone sell-in: -31% YoY in Jul



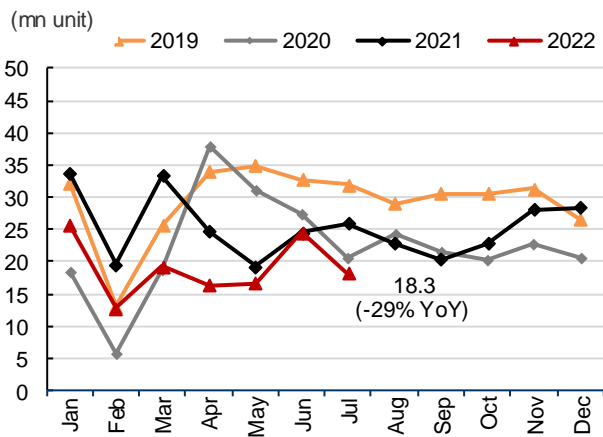
Source: CAICT, CMBIGM

Figure 2: China smartphone sell-in shipment



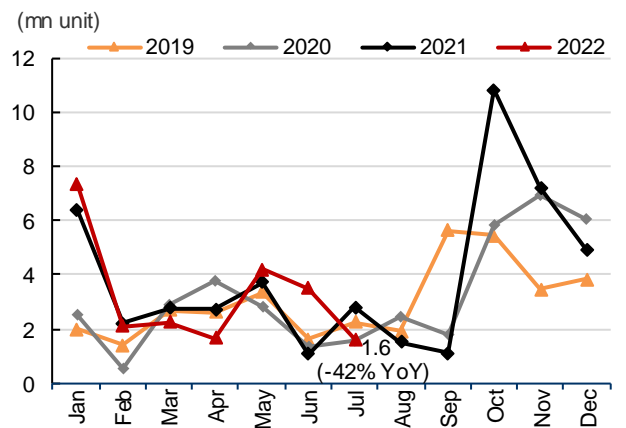
Source: CAICT, CMBIGM

Figure 3: China market: Chinese brand shipment



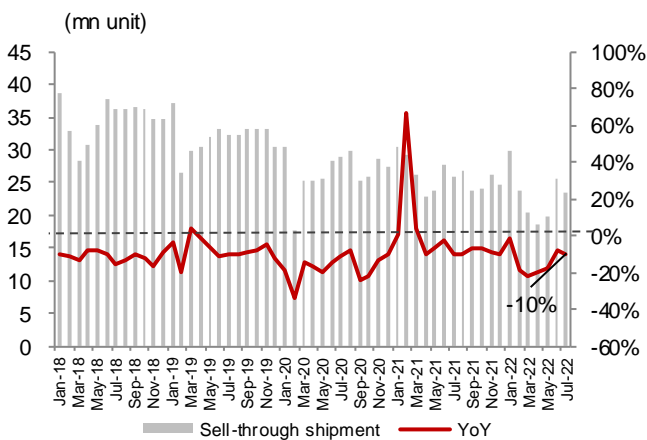
Source: CAICT, CMBIGM

Figure 4: China market: Overseas brand shipment



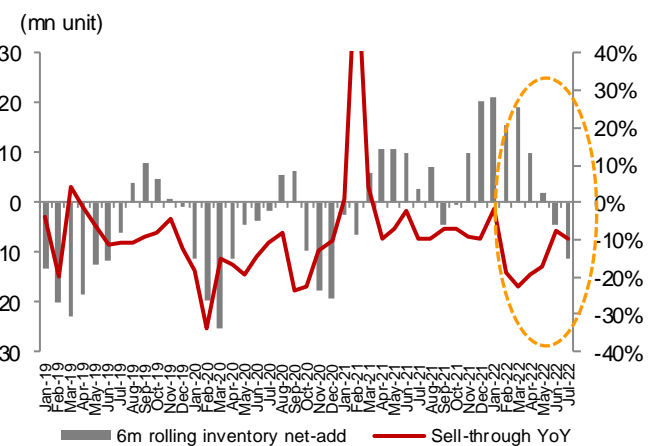
Source: CAICT, CMBIGM

Figure 5: China smartphone sell-out: -10% YoY in Jul



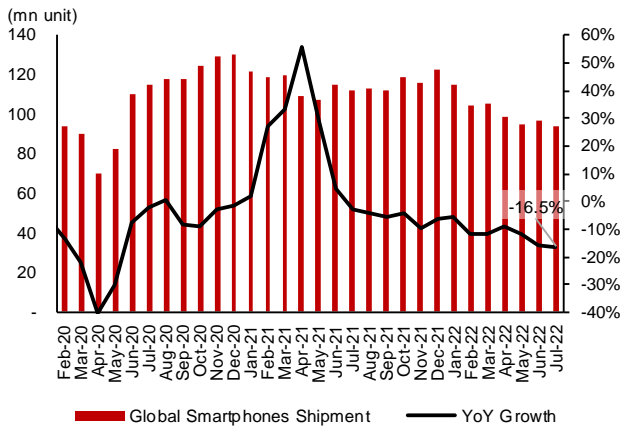
Source: Counterpoint, CMBIGM

Figure 6: China mkt: 6m rolling inventory trend



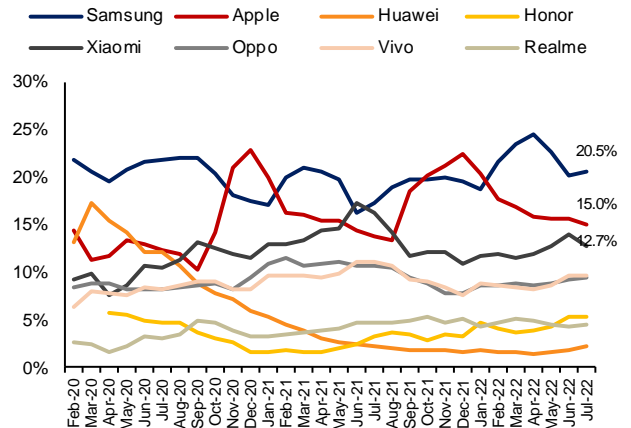
Source: Counterpoint, CMBIGM

Figure 7: Global smartphone: -16.5% YoY in Jul



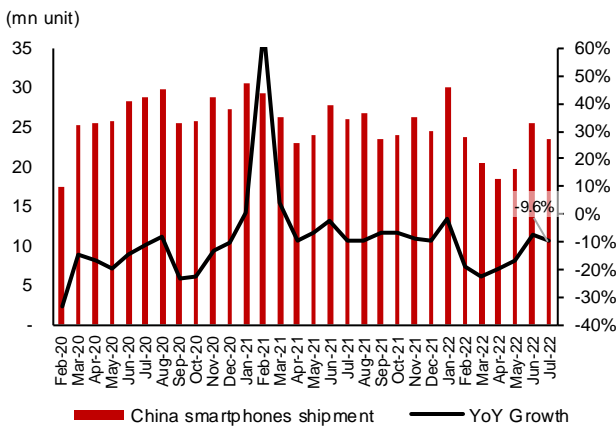
Source: Counterpoint, CMBIGM

Figure 8: Global smartphone market share trend



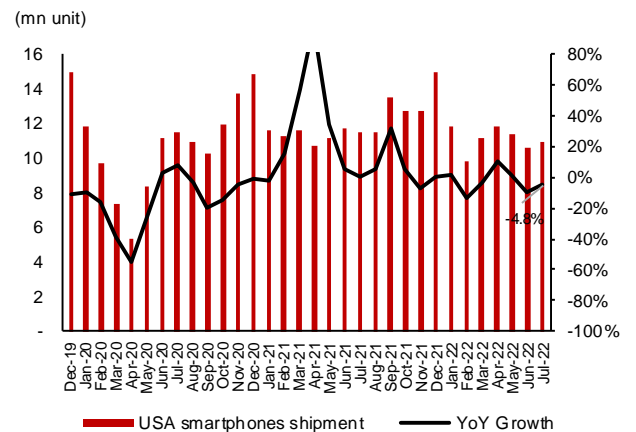
Source: Counterpoint, CMBIGM

Figure 9: China smartphone: -9.6% YoY in Jul



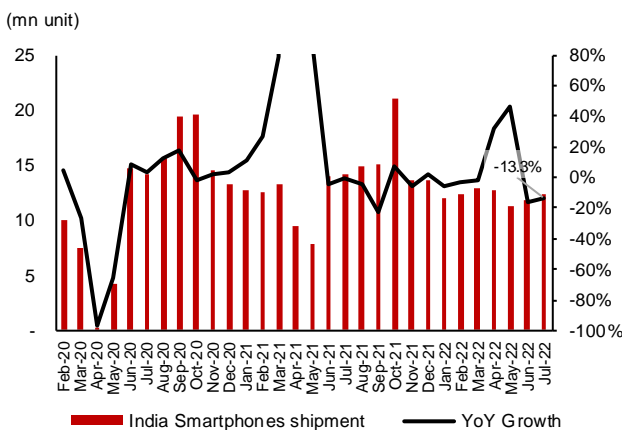
Source: Counterpoint, CMBIGM

Figure 10: US smartphone: -4.8% YoY in Jul



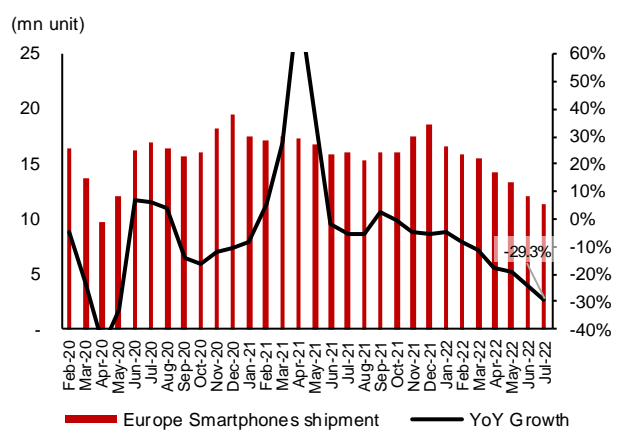
Source: Counterpoint, CMBIGM

Figure 11: India smartphone: -13.3% YoY in Jul



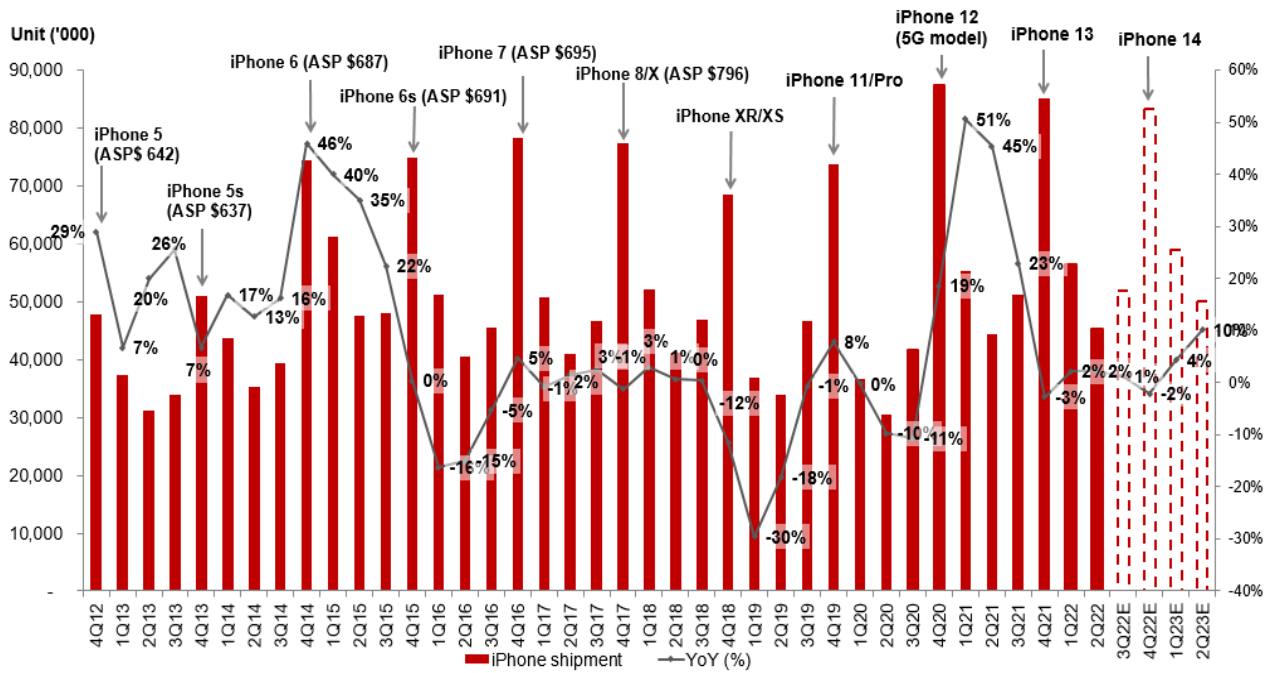
Source: Counterpoint, CMBIGM

Figure 12: Europe smartphone: -29.3% YoY



Source: Counterpoint, CMBIGM

Figure 13: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIGM estimates

Figure 14: 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 15: Peers Comparison

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Optics												
Sunny Optical	2382 HK	HOLD	13,800	98.75	102.3	4%	35.4	24.0	4.2	3.7	11.8	15.3
Q Tech	1478 HK	BUY	616	4.08	5.6	37%	15.9	7.8	0.9	0.8	5.5	10.3
Truly	732 HK	NR	617	1.48	NA	NA	5.1	4.2	0.4	0.4	8.2	9.2
Cowell	1415 HK	NR	1,732	16.24	NA	NA	23.2	14.8	4.1	-	21.4	27.3
Largan	3008 TT	NR	8,292	1935	NA	NA	13.2	14.6	1.7	1.6	13.3	11.6
Genius	3406 TT	NR	1,553	429	NA	NA	17.9	14.8	2.5	2.3	14.9	15.7
Primax	4915 TT	NR	982	66.70	NA	NA	10.6	9.7	1.8	1.7	17.7	18.0
Lite-On	2301 TT	NR	5,208	69.00	NA	NA	11.4	10.3	2.1	2.0	18.8	19.7
O-Film	002456 CH	NR	2,776	5.96	NA	NA	-	-	2.6	2.6	(14.6)	(5.8)
Samsung Elec	009150 KS	NR	7,126	133500	NA	NA	9.1	8.2	1.3	1.2	15.4	15.1
Lg Innotek	011070 KS	NR	5,818	344000	NA	NA	7.2	6.5	1.9	1.5	29.4	24.3
Partron	091700 KS	NR	351	8340	NA	NA	11.9	8.6	1.0	0.9	8.6	11.2
Average							14.6	11.2	2.0	1.7	12.5	14.3
Acoustics/Haptics												
AAC Tech	2018 HK	HOLD	2,177	14.14	14.0	-1%	16.7	11.6	0.7	0.7	4.0	5.6
Goertek	002241 CH	BUY	16,003	32.76	44.7	36%	20.5	16.6	3.5	3.0	17.1	17.8
Luxshare	002475 CH	BUY	35,363	34.91	*74.2	NA	24.5	18.5	5.4	4.2	-	-
Sunway	300136 CH	NR	2,201	15.91	NA	NA	19.4	14.4	2.3	2.0	12.2	15.0
Merry	2439 TT	NR	641	92	NA	NA	12.7	12.9	1.6	1.6	12.5	11.7
Knowles	KN US	NR	1,234	13.47	NA	NA	10.8	9.7	-	-	-	-
Nidec	6594 JP	NR	38,386	9236	NA	NA	38.3	31.7	4.5	3.8	12.2	12.5
Alps Alpine	6770 JP	NR	1,894	1239	NA	NA	14.8	8.6	0.7	0.6	4.7	7.5
Average							19.7	15.5	2.7	2.3	9.0	10.0
Connector												
FIT Hon Teng	6088 HK	BUY	1,056	1.14	1.8	56%	6.5	5.6	0.4	0.4	6.0	6.5
Luxshare	002475 CH	BUY	35,363	34.91	*74.2	NA	24.5	18.5	5.4	4.2	-	-
TE	TEL US	NR	40,009	125.09	NA	NA	17.2	16.2	3.7	3.4	21.9	21.7
Amphenol	APH US	NR	43,530	73.18	NA	NA	24.9	23.9	6.5	5.7	27.7	26.6
Average							18.3	16.1	4.0	3.4	13.9	13.7
EMS/OEM												
BYDE	285 HK	HOLD	6,890	24.00	19.3	-20%	32.1	18.2	1.9	1.7	6.0	9.6
Luxshare	002475 CH	BUY	35,363	34.91	*74.2	NA	24.5	18.5	5.4	4.2	-	-
Hon Hai Precision	2317 TT	NR	48,074	108.00	NA	NA	9.9	9.0	1.0	0.9	10.2	10.6
Pegatron	4938 TT	NR	5,457	63.70	NA	NA	10.7	9.3	1.0	0.9	8.8	9.8
Wistron	3231 TT	NR	2,549	27.35	NA	NA	8.9	7.8	0.9	0.8	9.8	10.5
Average							29.0	20.9	6.6	5.0	13.6	19.9
Casing												
BYDE	285 HK	HOLD	6,890	24.00	19.3	-20%	32.1	18.2	1.9	1.7	6.0	9.6
Tongda	698 HK	BUY	142	0.12	0.2	91%	3.8	2.9	0.1	0.1	2.3	3.0
TK Group	2283 HK	BUY	188	1.77	3.4	91%	4.3	3.4	0.8	0.7	18.6	20.7
Ju Teng	3336 HK	NR	214	1.40	NA	NA	7.0	4.8	0.2	0.2	3.5	5.0
Everwin	300115 CH	NR	2,189	12.75	NA	NA	45.5	18.3	2.6	2.4	4.8	11.2
Lens Tech	300433 CH	NR	7,381	10.38	NA	NA	23.6	13.8	1.2	1.1	6.3	8.0
Chaozhou Three	300408 CH	NR	7,362	26.87	NA	NA	23.5	17.7	2.9	2.6	12.2	14.4
Catcher	2474 TT	NR	3,969	173.0	NA	NA	14.0	16.8	0.8	0.8	5.7	4.8
Jabil	JBL US	NR	8,189	59.54	NA	NA	8.0	7.6	3.1	2.4	46.0	35.7
Average							18.0	11.5	1.5	1.3	11.7	12.5

Source: Bloomberg, CMBIGM estimates, * TP under review

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