

# China Technology Sector

## New Apple Watch, iPad and Services Bundle Unveiled; Positive to BYDE and Luxshare

As anticipated, Apple's event today featured two new Apple watches and two new iPads. In addition, Apple launched Apple Fitness+ and a bundled Apple service for individuals and family. We believe expansion of watches and services is integral part of its strategy to expand TAM and engage iPhone users to Apple ecosystem, and upcoming iPhone 12 launch in mid-Oct will stimulate pent-up demand for 5G replacement cycle. We continue to favor Apple supply chain over Android camp, and reiterate Buy on Luxshare for AirPods/Watch OEM/SiP/wireless charging and BYDE for iPad assembly and Watch components.

- **Apple Watch 6 and SE: new health sensor and Family Setup to expand TAM.** Apple Watch 6 features a new Blood Oxygen sensor and an upgraded S6 SiP processor with 20% faster than prior-gen, while Watch SE comes with same accelerometer, gyroscope and always-on altimeter as Series 6, and features a S5 processor with 2x performance vs Series 3. watchOS7 also includes a new Family Setup feature that parents can pair multiple watches with their iPhone in order to stay connected with their children or older parents without iPhones. Series 6 starts at \$399 (similar to Series 5) and entry-level SE launched at \$279 (vs old Series 3 at \$199). With ~10% of iPhone users having Apple Watch, we believe Apple continues to push its watches into healthcare device market and children market, and we expect Apple Watch to ship 32/38mn in 2020/21E (vs 31mn in 2019).
- **iPad 8 and new iPad Air: new A14 chip launched.** Apple also refreshed the iPad 8th-gen with faster processor, better display/camera and improved battery life, while the new iPad Air features an edge-to-edge display, new A14 Bionic chip (5nm) with 40% faster processing and an integrated Touch ID into the top button. The iPad 8th-gen starts at \$329 (similar to prior-gen, \$299 for education) while iPad Air launches at \$599 (vs \$499 for prior-gen).
- **Expect strong 5G iPhone cycle in 4Q20-1H21E.** We maintain our view that iPhone 12 will be delayed to mid-Oct given supply chain disruption in 1Q20. We anticipate four new 5G iPhones in Oct: 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 3% YoY in 3Q20E and then rebound 2%/36% YoY in 4Q20E/1Q21E.
- **Prefer Luxshare and BYDE for strong outlook and earnings visibility.** We believe 5G iPhone launch delay is widely anticipated, and supply chain recovery will be boosted by channel restocking ahead of iPhone launch. We reiterate Buy on Luxshare (67% Apple rev. in 2021) given AirPods/watch momentum and BYDE (33% Apple rev. in 2021) for share gain in iPad/Watch.

### 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
AAC Tech	2018 HK	Hold	7,298	46.85	47.3	1%	23.6 16.9	2.5 10.7	
FIT Hon Teng	6088 HK	Buy	2,941	3.10	4.1	32%	16.4 11.3	1.2 7.3	
BYDE	285 HK	Buy	11,746	40.00	*37.7	NA	14.1 13.7	3.7 26.5	
Luxshare	002475 CH	Buy	57,208	56.21	74.2	32%	42.3 31.8	10.6 25.2	
Tongda	698 HK	Hold	364	0.44	0.5	14%	15.7 6.3	0.4 2.8	
Goertek	002241 CH	Buy	19,832	42.70	46.0	8%	56.2 37.1	7.7 13.7	

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

### MARKET PERFORM (Maintain)

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Alex Ng

(852) 3900 0881

alexng@cmbi.com.hk

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## Focus Charts

Figure 1: Apple Watch 6 series



Source: Apple, CMBIS

Figure 2: new Family Setup



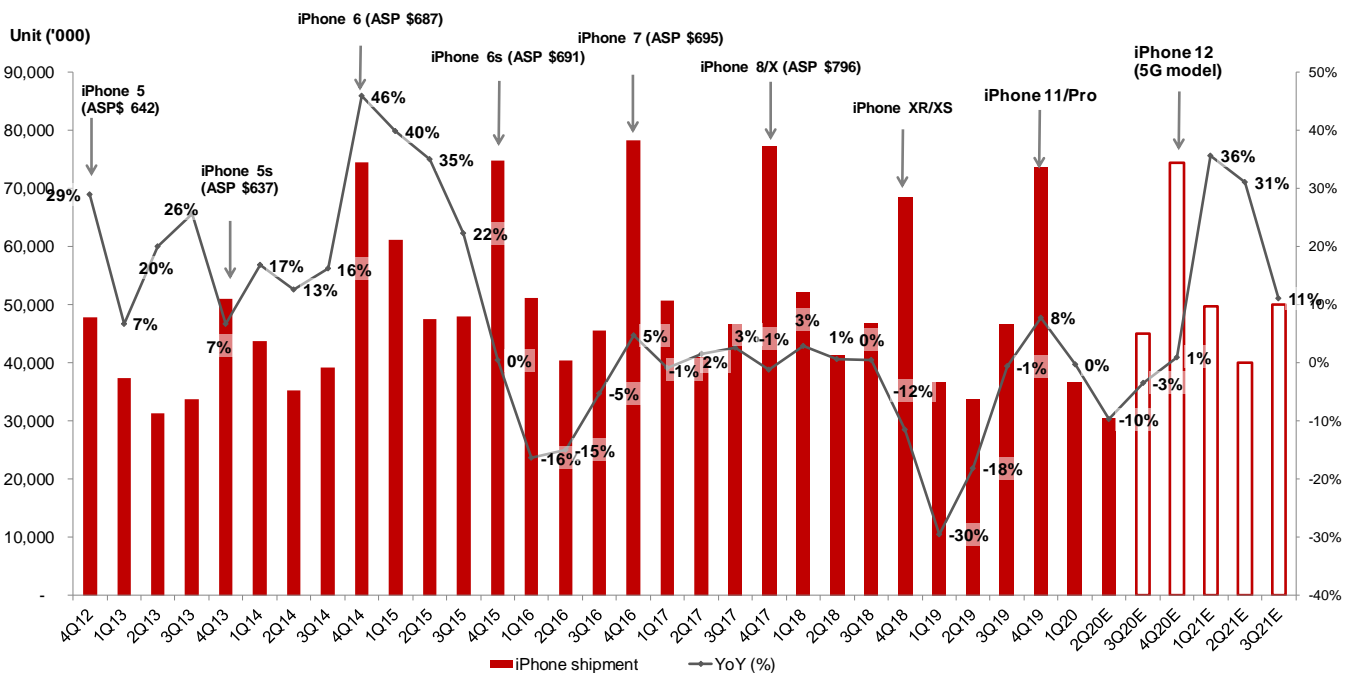
Source: Apple, CMBIS

Figure 3: Supply chain mapping and sales mix exposure (2020)

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	64%	6%	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 4: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIS

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
<b>Optics</b>												
Sunny Optical	2382 HK	Buy	17,592	123.70	148.0	20%	26.7	20.6	7.3	5.6	27.2	27.2
Q Tech	1478 HK	Buy	1,398	9.26	16.6	79%	12.2	10.1	2.7	2.2	22.0	21.8
Truly	732 HK	NR	395	0.93	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	324	2.95	NA	NA	6.6	5.5	1.0	0.9	11.2	13.8
Largan	3008 TT	NR	16,746	3655	NA	NA	17.5	14.7	3.3	2.9	20.9	20.9
Genius	3406 TT	NR	2,238	597	NA	NA	20.2	14.1	4.1	3.4	22.3	25.3
Primax	4915 TT	NR	699	44.05	NA	NA	9.4	8.9	1.5	1.3	13.0	16.3
Lite-On	2301 TT	NR	3,755	47.00	NA	NA	10.2	10.2	1.4	1.3	14.3	13.8
O-Film	002456 CH	NR	5,919	14.94	NA	NA	29.5	21.7	3.6	3.1	12.3	14.5
Samsung Elec	009150 KS	NR	9,061	144500	NA	NA	22.7	16.4	1.9	1.7	8.7	11.1
Lg Innotek	011070 KS	NR	3,403	170000	NA	NA	11.6	9.7	1.6	1.4	14.8	15.4
Partron	091700 KS	NR	517	11750	NA	NA	22.1	10.5	1.6	1.4	7.5	15.0
Average							17.1	12.9	2.7	2.3	15.8	17.7
<b>Acoustics/Haptics</b>												
AAC Tech	2018 HK	Hold	7,298	46.85	47.3	1%	23.6	16.9	2.5	2.3	10.7	13.9
Goertek	002241 CH	Buy	19,832	42.70	46.0	8%	56.2	37.1	7.7	6.7	13.7	18.0
Luxshare	002475 CH	Buy	57,208	56.21	74.2	32%	42.3	31.8	10.6	8.2	25.2	25.8
Sunway	300136 CH	NR	8,321	59.55	NA	NA	40.3	29.1	9.3	7.1	23.4	24.1
Merry	2439 TT	NR	1,128	156	NA	NA	15.5	12.7	2.7	2.6	17.0	20.7
Knowles	KN US	NR	1,426	15.56	NA	NA	31.3	14.0	1.1	1.1	3.5	7.7
Nidec	6594 JP	NR	55,062	9653	NA	NA	68.6	55.3	5.5	5.6	8.6	10.6
Alps Alpine	6770 JP	NR	3,466	1684	NA	NA	38.9	51.9	0.9	1.0	2.2	2.2
Average							39.6	31.1	5.1	4.3	13.0	15.4
<b>Connector</b>												
FIT Hon Teng	6088 HK	Buy	2,941	3.10	4.1	32%	16.4	11.3	1.2	1.1	7.3	9.8
Luxshare	002475 CH	Buy	57,208	56.21	74.2	32%	42.3	31.8	10.6	8.2	25.2	25.8
TE	TEL US	NR	32,865	99.58	NA	NA	25.2	20.3	3.5	3.1	12.2	15.9
Amphenol	APH US	NR	31,861	106.78	NA	NA	32.0	26.9	6.6	6.0	21.7	22.4
Delphi	DLPH US	NR	1,581	18.31	NA	NA	-	14.2	11.1	6.7	1.5	25.4
Average							29.0	20.9	6.6	5.0	13.6	19.9
<b>EMS/OEM</b>												
BYDE	285 HK	Buy	11,746	40.00	*37.7	NA	14.1	13.7	3.7	3.1	26.5	22.4
Luxshare	002475 CH	Buy	57,208	56.21	74.2	32%	42.3	31.8	10.6	8.2	25.2	25.8
Hon Hai Precision	2317 TT	NR	37,455	79.40	NA	NA	10.7	8.7	0.8	0.8	7.9	9.3
Pegatron	4938 TT	NR	5,698	63.80	NA	NA	9.8	10.0	1.0	1.0	10.6	9.8
Wistron	3231 TT	NR	2,888	30.10	NA	NA	11.2	10.4	1.1	1.1	9.6	9.9
Average							29.0	20.9	6.6	5.0	13.6	19.9
<b>Casing</b>												
BYDE	285 HK	Buy	11,746	40.00	*37.7	NA	14.1	13.7	3.7	3.1	26.5	22.4
Tongda	698 HK	Hold	364	0.44	0.5	14%	15.7	6.3	0.4	0.4	2.8	6.9
TK Group	2283 HK	Buy	281	2.62	*2.3	-11%	4.7	4.1	1.7	1.7	35.7	41.7
Ju Teng	3336 HK	NR	367	2.40	NA	NA	7.7	8.6	0.4	0.4	5.6	4.9
Everwin	300115 CH	NR	3,314	24.80	NA	NA	42.0	29.9	4.6	4.1	11.1	13.5
Lens Tech	300433 CH	NR	22,184	35.38	NA	NA	35.1	27.9	5.5	4.7	17.0	18.1
Chaozhou Three	300408 CH	NR	6,914	26.91	NA	NA	38.6	29.2	5.6	4.8	14.2	16.1
Casetek	5264 TT	NR	1,228	85.40	NA	NA	814.3	27.3	1.2	1.1	1.3	4.5
Catcher	2474 TT	NR	4,943	190.0	NA	NA	9.0	9.6	0.9	0.9	11.9	9.4
Jabil	JBL US	NR	4,784	31.77	NA	NA	12.3	8.9	2.9	2.7	22.6	31.1
Average							99.4	16.5	2.7	2.4	14.9	16.9

Source: Bloomberg, CMBIS, \* TP under review

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**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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