

China Technology Sector

Global smartphone recovery to continue in 2021; Prefer share gainers and Xiaomi/Apple plays

We forecast global smartphone shipment to rebound 7% YoY to 1.37bn in FY21E (vs -6.5% in FY20E), thanks to China market recovery (+16% YoY), iPhone 12 cycle and availability of mid/low-end 5G phones. While we believe new honor is now waiting for US license approval for component shipment after recent spin-off, we estimate 80mn units in FY21E considering recent component shortage and 1-2 quarter business transition. We expect Xiaomi/Apple will become major beneficiary on share gain from Huawei in 1H21E backed by 5G product pipeline and extensive omni-channel sales network. While de-spec trend will persist into 1Q21E, we prefer market share gainers and Xiaomi/Apple names, such as Sunny Optical for iPad lens order win, Luxshare/Goertek for TWS/AirPods/Watch, and BYDE for share gain in iPad OEM and Watch components.

- **Global smartphone to rebound 7% YoY in 2021; Strong 1H21 driven by sub-RMB1k 5G segment.** On the back of post-COVID-19 demand recovery, we expect global smartphone shipment to rebound 7%/2% YoY to 1.37bn/1.40bn in FY21/22E, while China smartphone will grow 16%/5% YoY to 341mn/358mn, mainly driven by strong demand of sub-RMB1k 5G phones.
- **Xiaomi/Apple as clear market share gainer in 1H21E.** Our check suggested new Honor (post spin-off) is still waiting for US license approval for most components overseas, and we believe it will take 1-2 quarters for new model launch and marketing/branding transition. In our base case, we estimate 80mn units for new Honor in FY21E (vs Huawei 190mn in FY19), and Xiaomi/Apple will grow 34%/15% YoY to 200mn/220mn in FY21E given strong 5G product pipeline, global sales network and established ecosystem.
- **Tight component supply and de-spec trend to persist into 1Q21E.** We expect tight semi supply (esp. SoC, PMIC) to continue into 1Q21E due to 1) strong post-pandemic recovery in segments like automobile and home appliances, 2) handset brands' inventory build to take Huawei share, 3) Honor spinoff to boost restocking, and 4) strong iPhone demand into 1Q21E. While 5G SoC cost pressure will alleviate in 1Q21E, we expect de-spec trend on most components will continue into 1Q21E given weak demand of high-end smartphone amid ongoing global macro weakness.
- **Prefer Xiaomi, Sunny Optical, Luxshare, Goertek and BYDE.** We expect overall tech demand remain solid across segments and component supply will remain tight in 1H20E. While most high-end smartphone components will be under pressure in 1Q21E due to ongoing de-spec trend, we suggest to focus on share gainers and Xiaomi/Apple plays. Our picks include Xiaomi for global share gain from Huawei, Sunny Optical for iPad lens order win, Luxshare/Goertek for TWS/AirPods/Watch, and BYDE for share gain in iPad OEM and 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	ROE FY20E
Xiaomi	1810 HK	Buy	104,908	32.4	31.1*	-4%	51.0	36.3	7.1	13.9
Sunny Optical	2382 HK	Buy	23,016	157.5	146.1*	-7%	36.0	26.6	9.4	26.0
BYDE	285 HK	Buy	11,377	37.90	49.5	31%	13.9	12.5	3.5	25.1
Luxshare	002475 CH	Buy	59,654	55.58	74.2	34%	41.8	31.4	10.5	25.2
Goertek	002241 CH	Buy	19,083	37.72	46.0	22%	49.6	32.8	6.8	13.7

Source: Bloomberg, CMBIS estimates, * TP under review

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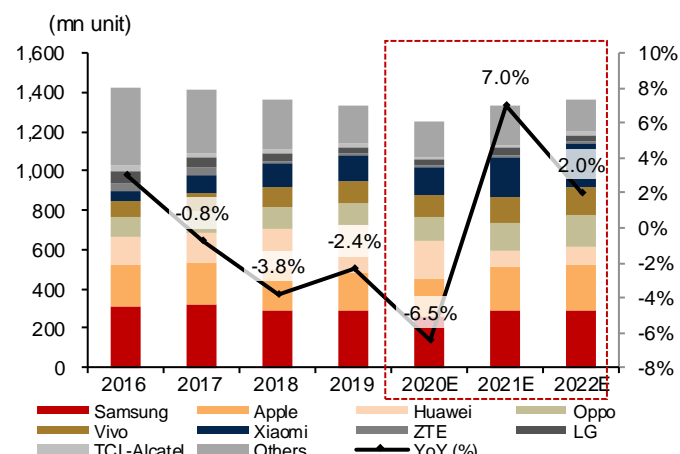
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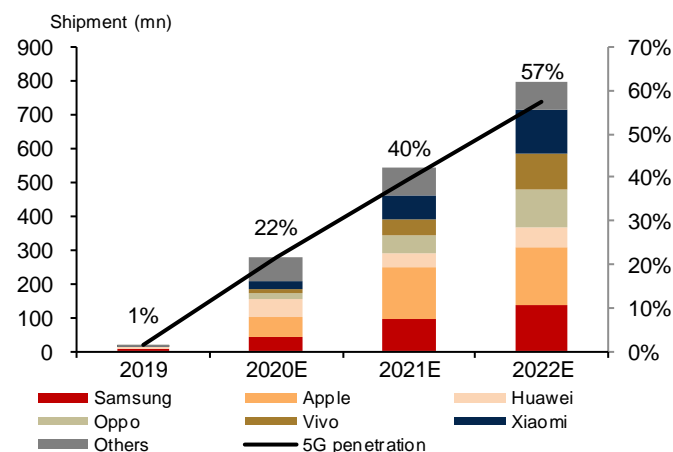
Focus Charts

Figure 1: Global smartphone shipment forecast



Source: IDC, CMBIS

Figure 2: Global 5G smartphone forecasts



Source: IDC, CMBIS

Figure 3: Global smartphone shipment forecast (By brand)

(mn unit)		Growth (YoY)			
		2018	2019	2020E	2021E
Global Shipment		1,406	1,373	1,284	1,374
YoY		-3.8%	-2.4%	-6.5%	7.0%
China Shipment		390	372	294	341
YoY		-15.5%	-4.7%	-21.0%	16.3%
Samsung		292	296	265	290
Apple		209	191	191	220
Huawei		206	241	190	80
Oppo		113	114	118	145
Vivo		101	110	110	138
Xiaomi		119	126	149	200
Others		366	295	261	301

Source: IDC, CMBIS

Figure 4: 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, accessories
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 modules
TK Group	2283 HK	10%				90%	Plastic molding, plastic precision
Truly	732 HK			3%	62%	35%	Camera modules, fingerprint, display modules
Cowell	1445 HK	90%		5%		5%	Camera Module
Luxshare	002475 CH	60%	10%	3%		27%	Wireless, AirPods, Watch, acoustics/haptics, EMS
Goertek	002241 CH	45%	5%	10%	15%	25%	Acoustics, AirPods, Watch, AR/VR, Wearables
O-film	002456 CH	15%	5%	15%	55%	10%	Camera modules, fingerprint, touch panel
Sunway	300136 CH	45%	5%	10%	30%	10%	Antenna, wireless charging, connector, RF
Lens Tech	300433 CH	50%	5%	10%	20%	15%	Glass/metal casing, EMS

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	23,016	157.50	146.1*	-7%	36.0	26.6	9.4	7.2	26.0	27.1
Q Tech	1478 HK	Buy	1,887	12.22	16.6	36%	16.1	13.3	3.5	2.9	22.0	21.8
Truly	732 HK	NR	382	0.92	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	628	5.83	NA	NA	10.6	8.7	2.5	2.3	21.1	29.5
Largan	3008 TT	NR	15,208	3235	NA	NA	16.9	15.1	3.1	2.7	19.1	19.5
Genius	3406 TT	NR	2,215	571	NA	NA	19.5	15.3	4.0	3.3	21.9	23.9
Primax	4915 TT	NR	776	47.15	NA	NA	10.5	9.6	1.6	1.5	14.1	15.1
Lite-On	2301 TT	NR	4,153	49.90	NA	NA	10.7	10.4	1.5	1.4	14.2	14.1
O-Film	002456 CH	NR	5,417	13.05	NA	NA	27.5	19.7	3.3	2.9	11.4	14.1
Samsung Elec	009150 KS	NR	12,096	167500	NA	NA	23.2	17.8	2.3	2.1	10.6	12.4
Lg Innotek	011070 KS	NR	3,974	180500	NA	NA	14.3	9.5	1.7	1.5	13.0	17.1
Partron	091700 KS	NR	555	11050	NA	NA	22.5	10.6	1.6	1.4	7.4	14.6
Average							18.9	14.2	3.1	2.7	16.4	19.0
Acoustics/Haptics												
AAC Tech	2018 HK	Hold	6,725	43.50	43.2	-1%	35.8	23.9	2.3	2.2	6.5	9.3
Goertek	002241 CH	Buy	19,083	37.72	46.0	22%	49.6	32.8	6.8	5.9	13.7	18.0
Luxshare	002475 CH	Buy	59,654	55.58	74.2	34%	41.8	31.4	10.5	8.1	25.2	25.8
Sunway	300136 CH	NR	5,508	36.17	NA	NA	26.9	18.5	5.9	4.4	22.3	24.8
Merry	2439 TT	NR	1,097	148	NA	NA	17.7	12.8	2.5	2.3	13.2	19.0
Knowles	KN US	NR	1,674	18.26	NA	NA	32.5	15.4	1.3	1.3	4.1	8.3
Nidec	6594 JP	NR	75,305	12920	NA	NA	92.0	67.9	7.4	7.5	8.6	11.4
Alps Alpine	6770 JP	NR	2,923	1371	NA	NA	32.2	55.1	0.8	0.9	2.2	1.7
Average							41.1	32.2	4.7	4.1	12.0	14.8
Connector												
FIT Hon Teng	6088 HK	Buy	2,418	2.67	4.1	54%	14.1	9.7	1.0	1.0	7.3	9.8
Luxshare	002475 CH	Buy	59,654	55.58	74.2	34%	41.8	31.4	10.5	8.1	25.2	25.8
TE	TEL US	NR	39,663	119.92	NA	NA	30.3	22.8	4.3	4.0	10.5	17.7
Amphenol	APH US	NR	38,842	129.84	NA	NA	35.9	30.7	7.7	7.0	23.3	24.5
Delphi	DLPH US	NR	-	N/A	NA	NA	-	-	-	-	(5.4)	27.2
Average							30.5	23.7	5.9	5.0	12.2	21.0
EMS/OEM												
BYDE	285 HK	Buy	11,377	37.90	49.5	31%	13.9	12.5	3.5	2.8	25.1	22.4
Luxshare	002475 CH	Buy	59,654	55.58	74.2	34%	41.8	31.4	10.5	8.1	25.2	25.8
Hon Hai Precision	2317 TT	NR	44,540	91.80	NA	NA	11.9	10.0	1.0	0.9	8.1	9.4
Pegatron	4938 TT	NR	6,225	68.00	NA	NA	8.2	9.6	1.1	1.0	12.9	10.4
Wistron	3231 TT	NR	3,126	31.05	NA	NA	9.8	9.4	1.1	1.1	11.4	11.5
Average							29.0	20.9	6.6	5.0	13.6	19.9
Casing												
BYDE	285 HK	Buy	11,377	37.90	49.5	31%	13.9	12.5	3.5	2.8	25.1	22.4
Tongda	698 HK	Buy	468	0.56	0.6*	0%	11.4	7.0	0.5	0.5	4.7	7.7
TK Group	2283 HK	Buy	268	2.52	2.3*	-8%	4.6	3.9	1.6	1.6	35.7	41.7
Ju Teng	3336 HK	NR	353	2.32	NA	NA	6.9	7.9	0.4	0.4	6.4	5.3
Everwin	300115 CH	NR	3,609	23.42	NA	NA	40.1	26.9	4.5	4.0	12.6	15.2
Lens Tech	300433 CH	NR	20,604	30.58	NA	NA	28.7	23.1	4.8	4.2	18.5	19.6
Chaozhou Three	300408 CH	NR	9,980	36.10	NA	NA	43.6	33.5	7.2	6.0	16.3	16.9
Casetek	5264 TT	NR	1,305	87.50	NA	NA	84.8	27.8	1.2	1.2	2.3	4.2
Catcher	2474 TT	NR	5,535	202.0	NA	NA	10.2	10.4	1.0	1.0	12.4	8.6
Jabil	JBL US	NR	6,445	42.83	NA	NA	16.5	9.2	4.0	2.9	22.6	34.4
Average							26.1	16.2	2.9	2.5	15.7	17.6

Source: Bloomberg, CMBIS estimates, * TP under review

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