

Telco Equipment Sector

5G service on the horizon but softer 5G BTS outlook

Our recent supply chain check suggested that 1) Chinese operators are prudent on 5G BTS deployment in near term given NSA limitations, financial burden and extensive 4G coverage, 2) “Co-build, co-share” execution plan remains at early stage with limited capex impact in FY19-20E, and 3) accelerating US component substitution. That said, recent positive feedback on 5G service pre-registration (10mn as of early Oct) confirmed strong consumer demand in China. Overall, we remain positive on domestic 5G supply chain, and expect equipment vendors, like ZTE (763 HK), and optical component suppliers, Innolight (300308 CH) and Accelink (002281 CH), to benefit from 5G large-scale deployment in FY20-22E.

- 150k/700K new 5G BTS on track in FY19/20E.** We believe it is feasible for carriers to deploy 5G equipment on existing 4G sites (each-to-each) to achieve signal coverage, backed by Massive MIMO technology. Considering 1) 4G BTS size, 2) CM’s spectrum advantage on coverage (CM: 2.6GHz; CT/CU:3.5GHz), and 3) “Co-build, co-share” initiative, we expect 700K new 5G BTS in FY20E (CM: 300K; CT/CU: 400K), and total 5G macro BTS will slightly dwindle, compared with 4G. Thus, we expect it may cloud the demand for sites and optical cable companies, such as China Tower (788 HK) and YOFC (6869 HK) in near term.
- Component import substitution is accelerating.** We believe import substitution on major equipment components (e.g. optical modules, RF/PA/baseband chips) progressed well, albeit domestic players still seemed hard to rival global peers on high-speed products in near term. In view of trade dispute uncertainty and domestic players’ aggressive R&D investment, we believe local players, like Innolight and Accelink, will gradually catch up with global leaders and benefit from share gains in the long run.
- 5G opportunities lie in “To-B” segment.** Over 10mn pre-registered 5G subscribers in Sep revealed robust consumer demand for 5G upgrades. We expect applications such as AR/VR/drone to drive growth in consumer segment. Meanwhile, we believe larger 5G opportunities lie in enterprise segment in long run, as the technical leap forward in terms of latency, reliability and connectivity, highlights greater potential in industrial IoT.
- Bullish on equipment vendors and optical component players.** We believe 5G tariff rollout in late Oct will be upcoming catalyst to drive sector re-rating. Meanwhile, we recommend to eye on Innolight and Accelink for share gains and strong demand visibility as well as ZTE for domestic accelerated 5G buildout and 4G enhancement in SEA markets. Key risks include uncertainty in trade dispute and unexpected ASP slump.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	P/E (x)		P/B (x)		ROE
					FY19E	FY20E	FY19E	FY19E	
China Tower	788 HK	NR	39,484	1.76	53.3	35.6	1.5	2.9	
YOFC	6869 HK	NR	2,439	12.26	10.8	8.3	0.9	9.0	
FiberHome	600498 CH	NR	4,544	27.66	33.1	26.5	2.9	9.1	
Innolight	300308 CH	NR	4,069	40.66	42.3	28.8	4.3	11.6	
Accelink	002281 CH	NR	2,761	29.09	48.6	36.1	4.9	10.3	
ZTE	763 HK	NR	17,485	20.70	17.8	14.7	2.5	15.7	

Source: Bloomberg, CMBIS

NOT RATED

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Peers comparison

Company	Ticker	Market Cap (US\$ mn)	Price (LC)	P/E (x)		P/B (x)		ROE (%)	
				FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Equipment									
ZTE	763 HK	17,485	20.70	17.8	14.7	2.5	2.2	15.7	16.0
FiberHome	600498 CH	4,544	27.66	33.1	26.5	2.9	2.7	9.1	10.4
Nokia	NOK US	27,695	4.91	21.0	12.4	1.8	1.8	5.5	7.6
Ericsson	ERIC US	27,513	8.25	27.3	16.7	3.2	2.8	8.9	17.0
Average				24.8	17.6	2.6	2.4	9.8	12.7
Optical Fiber/Cable									
YOFC	6869 HK	2,439	12.26	10.8	8.3	0.9	0.9	9.0	9.4
Hengtong	600487 CH	4,129	15.47	12.8	11.4	2.0	1.8	16.1	18.0
FiberHome	600498 CH	4,544	27.66	33.1	26.5	2.9	2.7	9.1	10.4
Average				18.9	15.4	2.0	1.8	11.4	12.6
OC									
Accelink	002281 CH	2,761	29.09	48.6	36.1	4.9	4.4	10.3	12.6
Innolight	300308 CH	4,069	40.66	42.3	28.8	4.3	3.8	11.5	14.3
O-Net	877 HK	429	4.09	12.4	11.3	1.3	1.2	9.4	10.9
FIT	6088 HK	2,688	3.11	9.9	8.8	1.2	1.1	12.8	13.0
Average				28.3	21.2	2.9	2.6	11.0	12.7
Antenna/RF									
Comba	2342 HK	563	1.78	28.7	12.9	1.2	1.1	3.8	7.6
Tongyu	002792 CH	1,246	26.31	63.6	36.3	4.3	3.9	5.8	12.0
Mobi	947 HK	92	0.88	-	-	-	-	-	-
Sunway	300136 CH	4,582	33.74	28.9	22.6	6.8	5.2	24.7	24.1
Luxshare	002475 CH	19,461	25.95	27.9	20.3	5.3	4.2	18.9	20.8
Average				37.3	23.0	4.4	3.6	13.3	16.2
PCB/CCL									
Shennan	002916 CH	6,956	146.20	50.1	36.4	10.5	8.4	22.3	24.1
Shengyi	600183 CH	8,176	25.62	42.3	34.2	7.4	6.4	18.1	20.0
WUS	002463 CH	5,915	24.46	-	-	-	-	-	-
Average				46.2	35.3	9.0	7.4	20.2	22.1
Infrastructure									
China Tower	788 HK	39,484	1.76	53.3	35.6	1.5	1.5	2.9	4.2
CCS	552 HK	3,999	4.53	9.1	8.1	0.8	0.8	9.3	9.8
Average				31.2	21.8	1.2	1.1	6.1	7.0

Source: Bloomberg, CMBIS

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