

China Technology

Apple FY3Q23 in-line on record-high service offsetting soft iPhone/Mac/iPad sales

Apple reported FY3Q23 (CY2Q23) results with EPS of US\$1.26 (+5% YoY) and revenue of US\$81.8bn (-1.4% YoY), which are 5% and 0.3% above consensus, mainly driven by record revenue from Service, offsetting sluggish iPhone/Mac/iPad sales. Looking into FY4Q23E, mgmt. expects revenue to show similar YoY revenue decline (-1% YoY), while iPhone/services will accelerate YoY growth and iPad/Mac will post double-digit decline. Given resilient outlook and iPhone's share gain amid macro headwinds, we remain positive on Apple supply chain over Android camp in 2H23E with upcoming catalysts from iPhone 15 launch in Sep. Reiterate BUY on Luxshare/BYDE/FIT Hon Teng for expanding share with Apple and rising exposure to non-smartphone components, and maintain HOLD on Sunny Optical/AAC Tech mainly for fair valuation.

- **Record-high service revenue offsetting weak product sales.** iPhone/Mac/iPad/Wearables/Service segments delivered -2%/-7%/-20%/+2%/+8% YoY, respectively. Soft iPhone sales was largely in-line, but iPhone shipment outperformed the market with only -6.3% YoY (vs industry -7.8% YoY) and market share increased to 16.0% (vs. 15.8% in 2Q22). In particular, China sales grew 8% YoY, which is impressive in our view. Apple's Services business is the big highlight with 8.2% YoY growth (vs +5.5% in CY1Q23), and Apple set record revenue in many service categories, such as video, AppleCare, cloud, payment services, and advertising.
- **Near-term outlook remains mixed; Updates on generative AI and Vision Pro.** Mgmt. guided revenue to perform similarly next quarter (-1% YoY), largely in-line with market expectations, while GPM will come in at 44-45%, largely in-line. By segment, Apple expected iPhone/ services growth will accelerate and iPad/Mac will post double-digit YoY decline due to high base, particularly on Mac. Other highlights from earnings call: 1) Apple has been researching generative AI technologies for years but would not announce a new related product until it was ready for market; 2) Apple will start to give demos for Vision Pro VR headsets in Apple stores; 3) installed base of active devices sets all-time record with over 1bn paid subscriptions.
- **Stay selective amid bumpy recovery; Prefer Apple/non-smartphone names.** Despite positive signs of smartphone recovery into 2H23E, the pace of recovery remains uncertain given macro headwinds. We stay selective on technology stocks amid macro uncertainties and prolonged inventory correction. We reiterate BUY on Luxshare/BYDE/FIT Hon Teng for Apple's share gain and rising non-smartphone exposure, and maintain HOLD on Sunny Optical/ AAC Tech mainly for fair valuation.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY23E FY24E	P/B (x) FY23E FY24E
Luxshare	002475 CH	BUY	33,653	33.83	48.0	42%	22.4 18.2	2.4 10.5
BYDE	285 HK	BUY	8,657	30.00	31.7	6%	18.3 15.0	2.1 11.7
FIT Hon Teng	6088 HK	BUY	1,223	1.31	2.2	66%	8.2 6.6	0.5 5.6
Q-Tech	1478 HK	BUY	528	3.48	3.6	3%	10.4 6.6	0.7 7.0
Sunny Optical	2382 HK	HOLD	9,995	71.15	78.3	10%	38.7 24.5	2.9 7.5
AAC Tech	2018 HK	HOLD	2,637	17.18	15.6	-9%	28.5 17.1	0.8 2.9

Source: Company data, CMBIGM estimates

**OUTPERFORM
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5. Apple WWDC 2023: Vision Pro and more - 6 Jun 2023 ([link](#))
6. Apple MR: Long-awaited next "iPhone moment" - 5 Jun 2023 ([link](#))
7. Apple FY2Q23 beat on strong iPhone and EM; Positive on resilient performance amid headwinds - 8 May 2023 ([link](#))

Focus Charts

Figure 1: Apple's FY3Q23 (CY2Q23) results review

Apple Inc (AAPL US)	Actual			Consensus	
US\$ bn	FY3Q23	FY3Q22	YoY	FY3Q23E	Diff (%)
Revenue	81.8	83.0	-1%	81.6	0%
EPS (cent US\$)	1.27	1.20	6%	1.20	5%
GPM	44.5%	43.3%	1.3 ppt	44.4%	0.2 ppt
Product	60.6	63.4	-4%	60.7	0%
iPhone	39.7	40.7	-2%	39.8	0%
iPad	5.8	7.2	-20%	6.3	-9%
Mac	6.8	7.4	-7%	6.4	7%
Wearables, Home and Accessories	8.3	8.1	2%	8.4	-1%
Services	21.2	19.6	8%	20.8	2%

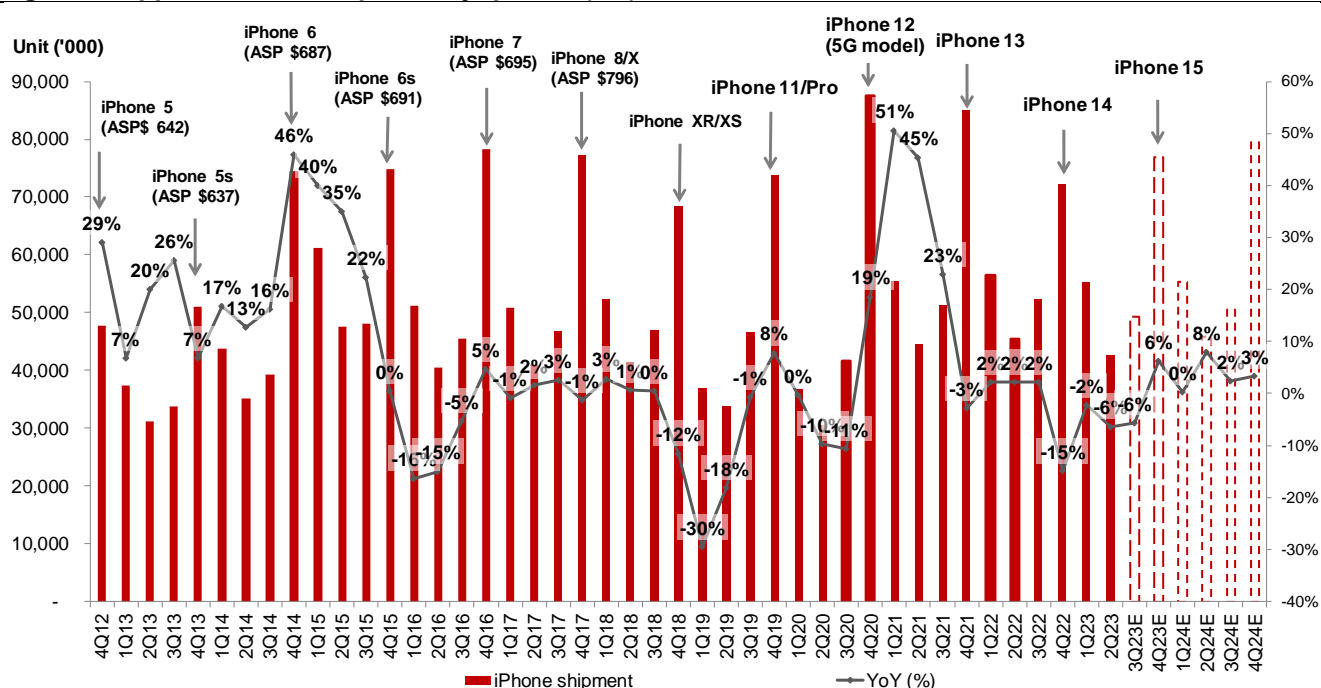
Source: Bloomberg, Company data, CMBIGM

Figure 2: Supply chain mapping and sales mix exposure (2023E)

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, automobile
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

Source: Company data, CMBIGM estimates

Figure 3: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIGM

Figure 4: Peers Comparison

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Optics												
Sunny Optical	2382 HK	HOLD	9,995	71.15	78.3	10%	38.7	24.5	2.9	2.7	7.5	10.8
Q Tech	1478 HK	BUY	528	3.48	3.6	3%	10.4	6.6	0.7	0.7	7.0	10.1
Cowell	1415 HK	NR	1,525	14.02	NA	NA	15.6	10.6	3.3	2.7	23.6	25.5
Largan	3008 TT	NR	9,116	2160	NA	NA	16.5	14.8	1.8	1.7	11.1	11.4
Genius	3406 TT	NR	1,449	407	NA	NA	17.1	15.6	2.2	2.0	13.6	14.0
Primax	4915 TT	NR	930	64.00	NA	NA	10.7	9.7	1.6	1.5	15.2	15.9
Lite-On	2301 TT	NR	10,410	139.00	NA	NA	21.3	17.7	3.8	3.8	18.1	21.7
Samsung Elec	009150 KS	NR	8,704	151100	NA	NA	17.5	12.1	1.4	1.3	8.4	11.2
Lg Innotek	011070 KS	NR	4,681	257000	NA	NA	8.6	6.4	1.3	1.1	15.6	18.1
Partron	091700 KS	NR	356	7850	NA	NA	10.1	8.7	0.9	0.9	9.6	9.9
Average							16.6	12.7	2.5	2.3	8.4	11.3
Acoustics/Haptics												
AAC Tech	2018 HK	HOLD	2,637	17.18	15.6	-9%	28.5	17.1	0.8	0.8	2.9	4.7
Goertek	002241 CH	BUY	8,606	18.04	44.7	148%	9.2	16.6	1.6	1.8	17.8	10.3
Luxshare	002475 CH	BUY	33,653	33.83	48.0	42%	22.4	18.2	2.4	2.1	10.5	11.4
Sunway	300136 CH	NR	2,518	18.66	NA	NA	21.1	16.9	2.4	2.1	11.7	13.6
Merry	2439 TT	NR	621	90	NA	NA	15.3	14.3	1.5	1.5	10.1	10.8
Nidec	6594 JP	NR	32,798	7840	NA	NA	56.5	26.4	3.4	3.0	7.0	12.4
Alps Alpine	6770 JP	NR	1,800	1177	NA	NA	9.9	11.7	0.6	0.6	6.2	5.2
Average							22.5	16.8	1.8	1.7	9.4	9.8
Connector												
FIT Hon Teng	6088 HK	BUY	1,223	1.31	2.2	66%	8.2	6.6	0.5	0.4	5.6	6.7
Luxshare	002475 CH	BUY	33,653	33.83	48.0	42%	22.4	18.2	2.4	2.1	10.5	11.4
TE	TEL US	NR	43,926	139.92	NA	NA	20.9	18.5	3.9	3.6	19.1	20.2
Amphenol	APH US	NR	52,774	88.48	NA	NA	30.4	28.1	6.7	6.0	24.5	24.3
Average							20.5	17.8	3.4	3.0	14.9	15.7
EMS/OEM												
BYDE	285 HK	BUY	8,657	30.00	31.7	6%	18.3	15.0	2.1	1.9	11.7	12.8
Luxshare	002475 CH	BUY	33,653	33.83	48.0	42%	22.4	18.2	2.4	2.1	10.5	11.4
Hon Hai Precision	2317 TT	NR	47,341	108.00	NA	NA	12.3	9.7	1.0	0.9	8.2	9.9
Pegatron	4938 TT	NR	6,391	75.80	NA	NA	13.0	11.3	1.1	1.0	8.3	10.2
Wistron	3231 TT	NR	11,141	121.50	NA	NA	34.3	21.7	3.4	3.0	9.5	13.8
Average							29.0	20.9	6.6	5.0	13.6	19.9
Casing												
BYDE	285 HK	BUY	8,657	30.00	31.7	6%	18.3	15.0	2.1	1.9	11.7	12.8
Tongda	698 HK	BUY	118	0.10	0.2	79%	4.3	3.1	0.1	0.1	1.8	3.8
TK Group	2283 HK	BUY	157	1.47	3.4	130%	2.8	3.8	0.6	0.6	20.7	17.8
Everwin	300115 CH	NR	1,786	10.66	NA	NA	26.3	13.9	2.1	1.8	7.9	13.2
Lens Tech	300433 CH	NR	8,650	12.47	NA	NA	21.4	15.9	1.3	1.3	6.8	9.1
Chaozhou Three	300408 CH	NR	8,687	32.50	NA	NA	32.2	24.2	3.3	3.0	10.6	12.5
Catcher	2474 TT	NR	3,743	174.0	NA	NA	16.1	15.8	0.7	0.7	4.6	4.5
Jabil	JBL US	NR	14,246	108.85	NA	NA	12.8	11.7	4.8	3.9	43.3	38.1
Average							16.8	12.9	1.9	1.7	13.4	14.0

Source: Bloomberg, CMBIGM estimates.

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