

China Technology Sector

Apple FY2Q above; Conservative outlook as expected

Apple delivered upbeat FY2Q (CY1Q20) results with EPS of US\$2.55 (+3% YoY) and revenue of US\$58.3bn (+1% YoY), which are 11% and 8% ahead of consensus. However, Apple decided not to issue FY3Q guidance due to lack of visibility amid COVID-19 impact. Looking ahead, mgmt. expected downward pressure on iPhone/wearables but improving demand for iPad/Mac in FY3Q. While we believe iPhone weakness and potential 5G iPhone launch delay are largely reflected in share price, we expect potential order cuts and demand uncertainty will continue to put the sector under pressure. We maintain Sell on AAC given margin pressure and lack of growth drivers, and reiterate Buy on Luxshare for AirPods momentum and strong visibility of its 5G product pipeline.

- iPhone better-than-feared and stronger service; Guidance pulled as expected.** Key highlights from earnings call include 1) iPhone revenue down 7% YoY (vs +8% in FY1Q) due to both demand and supply impacted by COVID-19, 2) slower China/Japan sales (-7%/-6% YoY), 3) continued wearables/home/accessories momentum (+23% YoY) with strong double-digit growth across all regions, 4) service well on track to double 2016 revenue by 2020, 5) no FY3Q guidance issued due to lack of visibility in the near term, and 6) FY3Q outlook: iPhone/wearables to worsen YoY and iPad/Mac to improve YoY.
- New 5G iPhone cycle to be postponed from 4Q19E to 1H21E.** Our check suggested that two or more 5G iPhone model launch will be delayed to Nov-Dec timeframe given supply chain disruption and 1.5-month delay of EVT/PVT for new production lines in China. Given recent COVID-19 impact in US/Europe (40%/21% of iPhone sales), we estimate iPhone shipment will decline 25%/8%/1% YoY to 26mn/43mn/73mn in 2Q/3Q/4Q20E. We forecast iPhone volume to drop 10% YoY to 175mn in FY20E.
- Too early to become constructive; Wearables is the only bright spot.** Overall, we remain cautious on tech names with high consumer electronics exposure in 2Q20E given lockdown of global major cities and ongoing economic slowdown. Although we believe iPhone weakness and 5G model launch delays are largely priced in, we expect order cuts and demand uncertainty will continue to weigh on iPhone supply chain in the near term. We maintain Sell rating on AAC due to share loss and margin pressure, and reiterate Buy on Luxshare given its AirPods leadership and strong 5G product pipeline.

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 FY20E	ROE
AAC Tech	2018 HK	Sell	5,916	37.95	29.0	-24%	23.5 15.4	2.0	8.7
FIT Hon Teng	6088 HK	Buy	1,491	1.68	2.6	57%	6.3 5.7	0.6	10
BYDE	285 HK	Buy	5,214	17.94	22.2	24%	22.0 16.6	2.0	9.0
Luxshare	002475 CH	Buy	35,936	47.31	55.4	17%	35.8 28.5	9.1	25.4
Tongda	698 HK	Hold	418	0.50	0.5	6%	6.7 5.7	0.5	7.1
Goertek	002241 CH	Hold	8,890	19.35	9.1*	NA	45.0 40.3	3.7	8.1

Source: Bloomberg, CMBIS estimates, * TP under review

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China Technology Sector

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Focus Charts

Figure 1: Apple's FY2Q20 (CY1Q20) results review

Apple Inc (AAPL US) US\$ bn	Actual FY2Q20	FY2Q19	YoY %	Consensus FY2Q20	Diff (%)
Revenue	58.3	58.0	1%	54.2	7.5%
EPS (cent US\$)	2.55	2.47	3%	2.29	11.4%
GPM	38.4%	37.6%	0.7ppt	38.4%	0.0ppt
Product	45.0	46.6	-3%	45.0	0%
iPhone	29.0	31.1	-7%	28.4	2%
iPad	4.4	4.9	-10%	4.3	2%
Mac	5.4	5.5	-3%	5.3	1%
Wearables, Home and Accessories	6.3	5.1	23%	7.0	-10%
Services	13.3	11.5	17%	12.8	4%

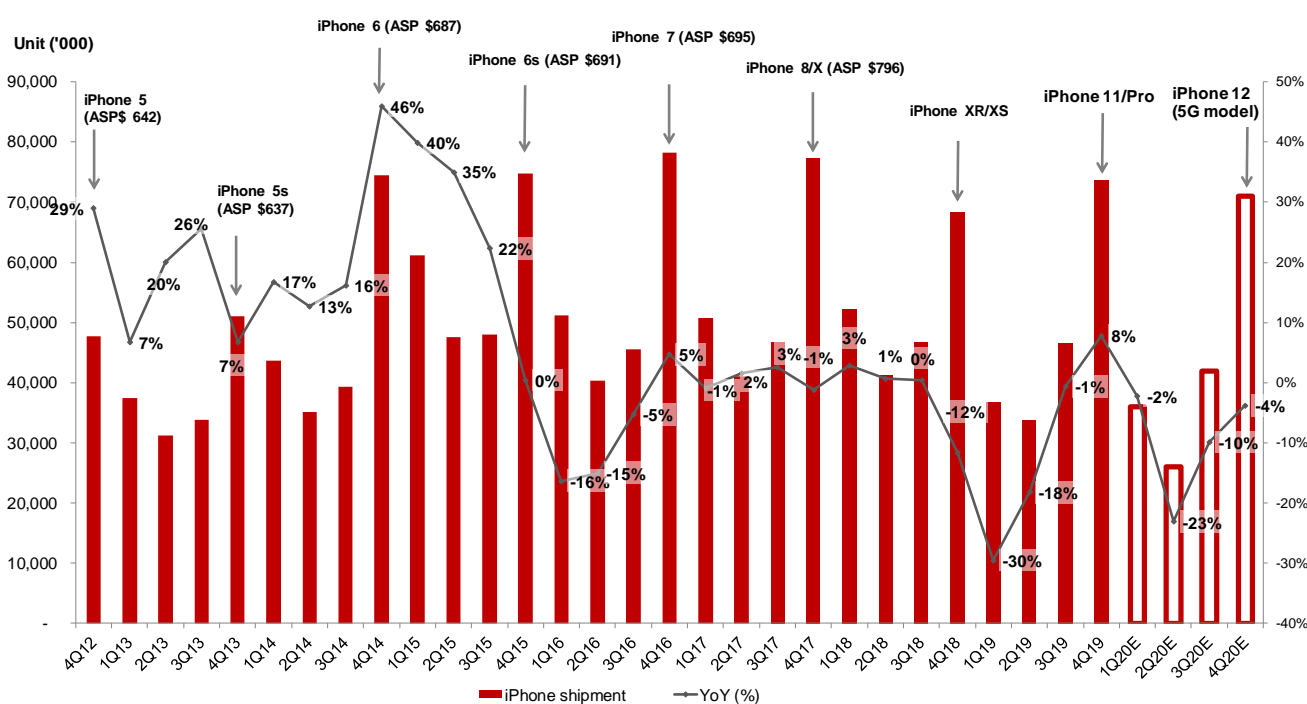
Source: Bloomberg, Company data, CMBIS

Figure 2: Supply chain mapping and sales mix exposure

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
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/glass casing, ODM/OEM
Tongda	698 HK	20%	5%	10%	35%	25%	Plastic casing, waterproof
Q-Tech	1478 HK		20%		70%	15%	Camera module/lens, fingerprint
TK Group	2283 HK	10%				90%	Plastic molding
Truly	732 HK			3%	62%	35%	CCM, fingerprint, display
Cowell	1445 HK	90%		5%		5%	Camera Module
Luxshare	002475 CN	60%	10%	3%		27%	Wireless, Airpod, acoustics/haptics
Goertek	002241 CN	35%	15%	10%	10%	30%	Acoustics, Airpod, AR/VR, Wearables
O-film	002456 CN	15%	20%	10%	45%	10%	CCM, fingerprint, touch panel
Lens Tech	300433 CN	50%	15%	10%	10%	15%	Glass casing

Source: Company data, CMBIS estimates

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



Source: Company data, CMBIS

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 (%)	
							FY20E	FY21E	FY19E	FY20E	FY19E	FY20E
Optics												
Sunny Optical	2382 HK	Hold	15,578	110.10	115.0	4%	24.4	18.6	6.5	5.0	26.7	27.0
Q Tech	1478 HK	Buy	1,413	9.36	14.8	58%	13.9	10.9	2.8	2.3	20.0	21.0
Truly	732 HK	NR	365	0.86	NA	NA	-	-	-	-	-	-
Cowell	1415 HK	NR	223	2.08	NA	NA	7.3	5.5	0.7	0.7	10.6	11.8
Largan	3008 TT	NR	18,540	4110	NA	NA	18.0	15.0	3.7	3.2	22.6	23.9
Genius	3406 TT	NR	1,811	486	NA	NA	17.8	12.1	3.3	2.7	20.6	25.6
Primax	4915 TT	NR	711	47.10	NA	NA	9.7	8.5	1.3	1.0	15.0	16.0
Lite-On	2301 TT	NR	3,658	46.50	NA	NA	12.4	11.4	1.4	1.4	11.5	11.8
O-Film	002456 CH	NR	5,838	15.20	NA	NA	28.3	22.5	3.8	3.3	12.8	14.4
Samsung Elec	009150 KS	NR	6,901	113500	NA	NA	18.8	13.8	1.5	1.4	8.4	10.6
Lg Innotek	011070 KS	NR	2,543	132000	NA	NA	9.6	8.4	1.2	1.1	13.7	14.1
Partron	091700 KS	NR	354	8040	NA	NA	7.5	6.4	1.1	0.9	15.6	15.9
Average							15.2	12.1	2.5	2.1	16.1	17.5
Acoustics/Haptics												
AAC Tech	2018 HK	Sell	5,916	37.95	29.0	-24%	23.5	15.4	2.0	1.9	8.7	12.3
Goertek	002241 CH	Hold	8,890	19.35	9.1*	NA	45.0	40.3	3.7	3.5	8.1	8.6
Luxshare	002475 CH	Buy	35,936	47.31	55.4	17%	35.8	28.5	9.1	7.0	25.4	24.6
Sunway	300136 CH	NR	5,664	41.30	NA	NA	29.4	21.9	6.6	5.1	23.9	24.6
Merry	2439 TT	NR	982	140	NA	NA	11.8	9.6	2.1	2.0	21.2	24.2
Knowles	KN US	NR	1,412	15.29	NA	NA	20.7	13.2	1.1	1.2	4.1	8.1
Nidec	6594 JP	NR	33,849	6057	NA	NA	42.6	30.5	3.4	3.2	8.6	10.5
Alps Alpine	6770 JP	NR	2,123	1033	NA	NA	21.7	10.6	0.6	0.6	2.6	5.0
Average							28.8	21.2	3.6	3.0	12.8	14.7
Connector												
FIT Hon Teng	6088 HK	Buy	1,491	1.68	2.6	57%	6.3	5.7	0.6	0.6	10.0	10.3
Luxshare	002475 CH	Buy	35,936	47.31	55.4	17%	35.8	28.5	9.1	7.0	25.4	24.6
TE	TEL US	NR	23,367	70.58	NA	NA	18.8	14.6	2.7	2.6	13.8	17.1
Amphenol	APH US	NR	25,299	85.50	NA	NA	28.4	23.3	5.9	5.5	20.5	24.3
Delphi	DLPH US	NR	823	9.56	NA	NA	-	7.3	2.8	3.3	13.2	24.4
Average							22.4	15.9	4.2	3.8	16.6	20.1
Casing												
BYDE	285 HK	Buy	5,214	17.94	22.2	24%	22.0	16.6	2.0	1.8	9.0	10.9
Tongda	698 HK	Hold	418	0.50	0.5	6%	6.7	5.7	0.5	0.5	7.1	8.1
TK Group	2283 HK	Buy	261	2.43	4.1	68%	4.4	3.8	1.6	1.6	35.7	41.7
Ju Teng	3336 HK	NR	301	2.00	NA	NA	11.8	12.5	0.4	0.4	0.8	3.2
Everwin	300115 CH	NR	2,512	19.50	NA	NA	31.0	21.7	3.6	3.2	11.2	13.7
Lens Tech	300433 CH	NR	10,996	18.27	NA	NA	22.6	18.1	3.2	2.7	15.7	16.4
Chaozhou Three	300408 CH	NR	5,137	20.82	NA	NA	30.8	23.3	4.3	3.7	13.6	15.5
Casetek	5264 TT	NR	662	46.85	NA	NA	88.9	15.0	0.6	0.6	0.8	3.8
Catcher	2474 TT	NR	5,907	228.0	NA	NA	10.0	8.6	1.1	1.0	11.2	12.6
Jabil	JBL US	NR	4,006	26.58	NA	NA	9.9	7.5	2.3	2.0	23.9	30.3
Average							23.8	13.3	1.9	1.8	12.9	15.6

Source: Bloomberg, CMBIS, * TP under review

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