

China Technology Sector

New iPhones unexciting as expected; Lower starting price is the only surprise

Apple launched iPhone 11/Pro/Max, Apple Watch 5 and new entry-level iPad 10.2 on 11 Sept (US time), with spec generally in line with market expectations. Given limited upgrade and consumer postponing purchase ahead of 5G models, we expect iPhone to decline 8%/12% YoY in 3Q/4Q19E, and maintain our FY19E estimate of 173mn (4% below consensus 180mn). We believe most supply chain players will suffer from volume/ASP erosion in 2H19E. Hence, we recommend to avoid Apple major suppliers, such as AAC and Cowell, and focus on names with share gains and content growth, such as FIT, Tongda, TK Group and Luxshare.

- **New iPhones spec largely in-line; lower pricing a major surprise.** Key highlights for new iPhones include 1) new double/triple rear cameras for "ultra-wide" shots, new night mode, 4K video at 60 frames/sec, cinematic video stabilization and 2X optical zoom, 2) front camera upgrade to 12MP (vs 7MP last year), 3) A13 bionic processor as the "fastest CPU" in smartphone, 4) longer battery life with 1-5hr longer than last year's models, 5) fast-charging: 18-watt adapter, 6) six new color options: white, black, yellow, red, lavender and green. The only positive is pricing of entry-level iPhone 11 (US\$699) is US\$50 lower than iPhone XR last year, which may slightly drive demand upside in 2H19E.
- **Camera upgrade is the only bright spot; "Fewer phones, more services" is negative to supply chain.** Apple's three new iPhones are all about upgrade on cameras (triple-cam, low-light, video stabilization), which we believe have been lagging behind its Android peers in past three years. We expect Apple's upgrade will prompt Android camp to accelerate camera innovations in terms of multi-cam, video cam and 3D sensing in upcoming 5G era. We believe Sunny Optical and Q-tech are major beneficiaries of accelerated upgrade trend. On the other hand, "Fewer phones, more services" is Apple's latest strategy ahead of 5G upgrade cycle, which will lead to volume/ASP erosion for iPhone supply chain before 5G model in 2H20E.
- **Prefer wearables and share gainers with YoY growth.** On the back of shipment decline and margin downside on new models in 2H19E, we recommend investors to avoid Apple major suppliers, such as AAC and Cowell, and focus on names with share gains and content growth, such as FIT Hon Teng for connectors, for waterproof and TK Group for USB/earphones, and Luxshare for Airpod/acoustics/haptics.

Valuation Table

| Name | Ticker | Rating | Mkt Cap (USD mn) | Price (LC) | TP (LC) | Up/Down -side | P/E (x) FY19E FY20E | P/B (x) FY19E FY19E | ROE |
|--------------|-----------|--------|---------------------|---------------|------------|------------------|------------------------|------------------------|-----|
| AAC Tech | 2018 HK | Sell | 6,073 | 39.40 | 29.6 | -25% | 22.4 17.0 | 2.2 9.9 | |
| FIT Hon Teng | 6088 HK | Buy | 2,966 | 3.43 | 3.8 | 10% | 11.9 10.4 | 1.4 12.1 | |
| Tongda | 698 HK | Buy | 479 | 0.58 | 0.9 | 57% | 4.7 4.0 | 0.6 11.7 | |
| TK Group | 2283 HK | Buy | 377 | 3.55 | 4.1 | 15% | 7.6 6.3 | 2.2 29.7 | |
| BYDE | 285 HK | Hold | 3,259 | 11.34 | 10.4 | -9% | 15.3 10.7 | 1.3 8.6 | |
| Luxshare | 002475 CH | Buy | 19,024 | 25.27 | 32.1 | 27% | 28.0 20.4 | 5.3 18.9 | |
| Goertek | 002241 CH | Hold | 6,764 | 14.81 | 9.1 | -39% | 39.7 35.1 | 3.0 7.6 | |
| ASM Pacific | 522 HK | NR | 4,956 | 95.55 | NA | NA | 33.2 17.3 | 3.1 9.0 | |

Source: Bloomberg, CMBIS estimates

MARKET PERFORM (Maintain)

China Technology Sector

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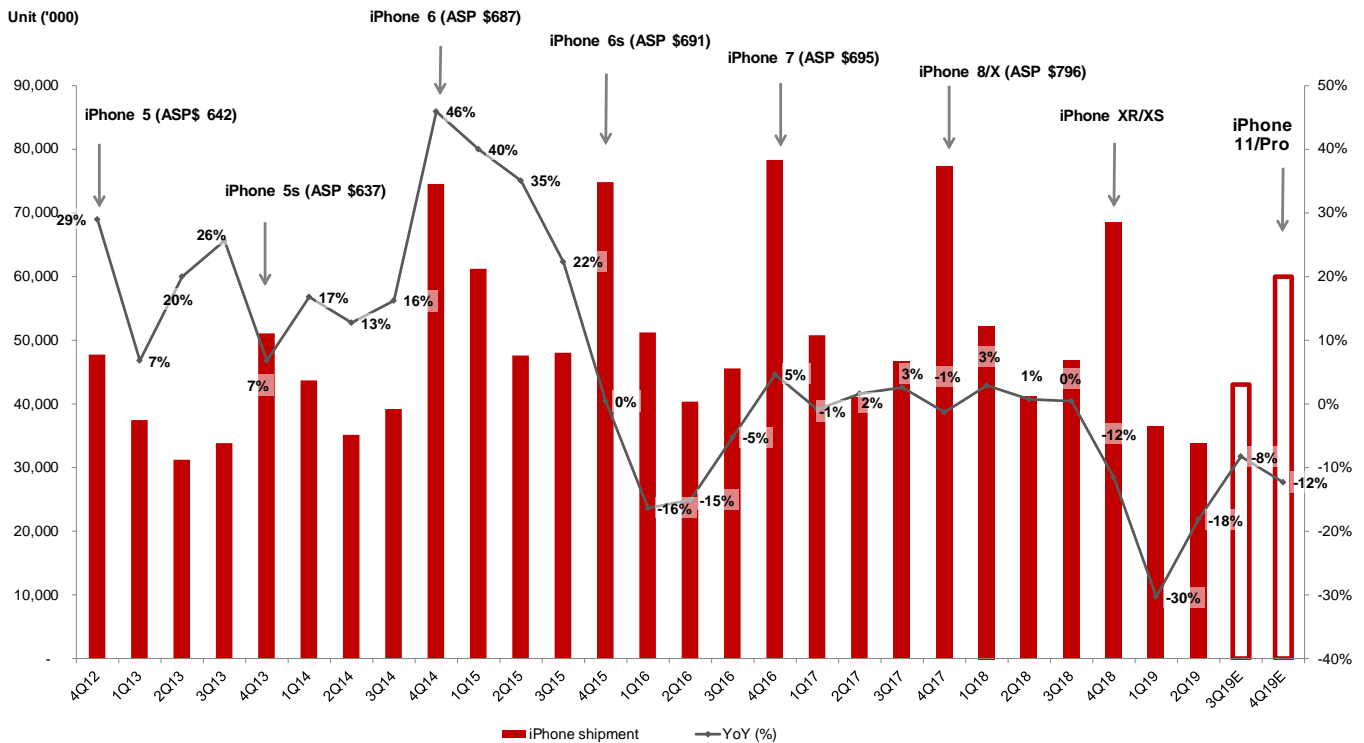
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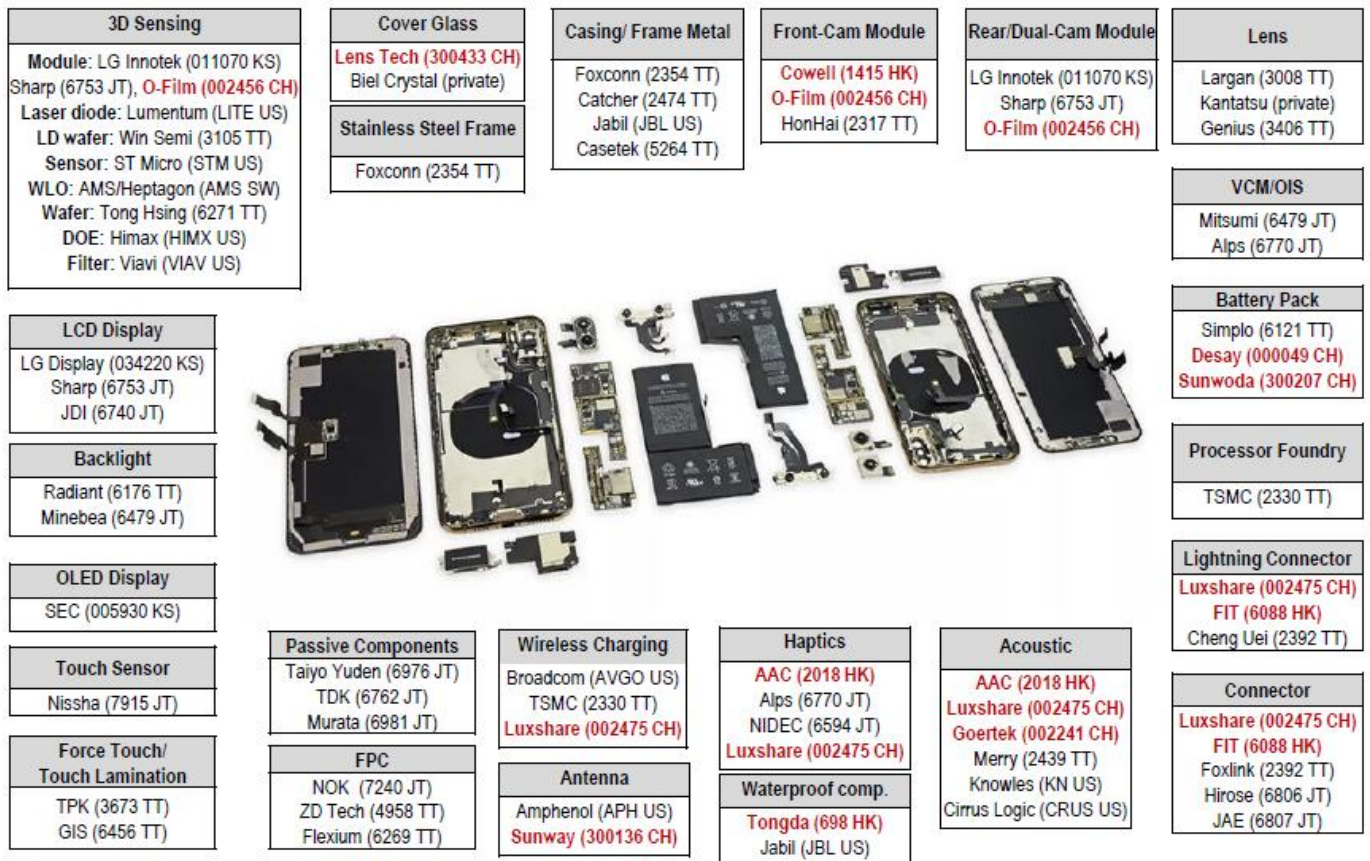
Focus Charts

Figure 1: Apple's iPhone shipment by quarter (CY)



Source: Company data, CMBIS

Figure 2: iPhone supply chain



Source: Bloomberg, Company data, CMBIS

Figure 3: Peers Comparison

| Company | Ticker | Rating | Market Cap (US\$ mn) | Price (LC) | TP (LC) | Up/Down -side | P/E (x) FY19E | P/E (x) FY20E | P/B (x) FY19E | P/B (x) FY20E | ROE (%) FY19E | ROE (%) FY20E |
|--------------------------|-----------|--------|----------------------|------------|---------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Optics | | | | | | | | | | | | |
| Sunny Optical | 2382 HK | Buy | 16,031 | 114.60 | 140.0 | 22% | 32.7 | 22.5 | 9.5 | 7.3 | 28.9 | 32.4 |
| Q Tech | 1478 HK | Buy | 1,263 | 8.67 | 9.5 | 10% | 21.3 | 16.4 | 3.5 | 3.0 | 16.4 | 18.0 |
| Truly | 732 HK | NR | 415 | 0.99 | NA | NA | 4.2 | 4.3 | 0.4 | 0.4 | 5.0 | 8.4 |
| Cowell | 1415 HK | NR | 127 | 1.20 | NA | NA | 8.5 | 5.9 | 0.4 | 0.4 | 5.8 | 5.8 |
| Largan | 3008 TT | NR | 16,226 | 3775 | NA | NA | 17.5 | 15.3 | 3.9 | 3.3 | 24.3 | 23.9 |
| Genius | 3406 TT | NR | 1,339 | 417 | NA | NA | 21.1 | 14.0 | 4.3 | 3.5 | 22.7 | 27.7 |
| Primax | 4915 TT | NR | 885 | 61.80 | NA | NA | 12.5 | 10.7 | 1.8 | 1.6 | 14.9 | 15.0 |
| Lite-On | 2301 TT | NR | 3,669 | 48.95 | NA | NA | 13.6 | 12.5 | 1.5 | 1.5 | 11.2 | 11.5 |
| O-Film | 002456 CH | NR | 4,253 | 11.14 | NA | NA | 22.3 | 14.8 | 2.9 | 2.5 | 13.2 | 14.8 |
| Samsung Elec | 009150 KS | NR | 6,109 | 97400 | NA | NA | 13.2 | 13.9 | 1.4 | 1.3 | 11.7 | 10.0 |
| Lg Innotek | 011070 KS | NR | 2,007 | 101000 | NA | NA | 14.7 | 10.5 | 1.0 | 1.0 | 7.5 | 9.6 |
| Partron | 091700 KS | NR | 541 | 11900 | NA | NA | 9.3 | 8.2 | 1.7 | 1.4 | 20.8 | 19.9 |
| Average | | | | | | | 15.9 | 12.4 | 2.7 | 2.3 | 15.2 | 16.4 |
| Acoustics/Haptics | | | | | | | | | | | | |
| AAC Tech | 2018 HK | Sell | 6,073 | 39.40 | 29.6 | -25% | 21.9 | 16.6 | 2.2 | 2.0 | 9.9 | 12.0 |
| Goertek | 002241 CH | Hold | 6,764 | 14.81 | 9.1 | -39% | 39.0 | 34.4 | 3.0 | 2.8 | 7.6 | 8.1 |
| Shenzhen Sunwa | 300136 CH | NR | 4,830 | 35.43 | NA | NA | 30.2 | 23.6 | 7.1 | 5.4 | 24.8 | 24.3 |
| Jinlong | 300032 CH | NR | 349 | 3.09 | NA | NA | - | - | - | - | - | - |
| Merry | 2439 TT | NR | 961 | 146 | NA | NA | 10.7 | 10.5 | 2.4 | 2.5 | 26.0 | 26.1 |
| Knowles | KN US | NR | 1,933 | 21.22 | NA | NA | 18.8 | 16.8 | 1.5 | 1.6 | 8.9 | 9.0 |
| Nidec | 6594 JP | NR | 39,724 | 14290 | NA | NA | 35.7 | 31.8 | 4.2 | 3.8 | 12.2 | 12.7 |
| Alps Alpine | 6770 JP | NR | 3,954 | 1934 | NA | NA | 14.9 | 12.5 | 1.1 | 1.1 | 8.4 | 8.4 |
| Average | | | | | | | 24.5 | 20.9 | 3.1 | 2.7 | 14.0 | 14.4 |
| Connector | | | | | | | | | | | | |
| FIT Hon Teng | 6088 HK | Buy | 2,966 | 3.43 | 3.8 | 10% | 11.4 | 10.0 | 1.4 | 1.2 | 12.1 | 12.2 |
| Luxshare | 002475 CH | Buy | 19,024 | 25.27 | 32.1 | 27% | 27.2 | 19.7 | 5.1 | 4.1 | 18.9 | 20.8 |
| TE | TEL US | NR | 31,944 | 95.09 | NA | NA | 17.2 | 16.5 | 3.0 | 2.9 | 17.4 | 17.5 |
| Amphenol | APH US | NR | 26,464 | 88.97 | NA | NA | 25.5 | 23.0 | 6.7 | 5.8 | 26.4 | 26.2 |
| Delphi | DLPH US | NR | 1,484 | 17.03 | NA | NA | 6.3 | 5.6 | 3.2 | 2.3 | 57.1 | 46.5 |
| Finisar | FNSR US | NR | 2,731 | 22.74 | NA | NA | 24.2 | 20.4 | 1.6 | 1.6 | 7.1 | 8.0 |
| Average | | | | | | | 18.6 | 15.9 | 3.5 | 3.0 | 23.2 | 21.9 |
| Casing | | | | | | | | | | | | |
| BYDE | 285 HK | Hold | 3,259 | 11.34 | 10.4 | -9% | 15.6 | 10.9 | 1.3 | 1.2 | 8.6 | 11.2 |
| Tongda | 698 HK | Buy | 479 | 0.58 | 0.9 | 57% | 4.5 | 3.8 | 0.5 | 0.5 | 11.7 | 12.8 |
| TK Group | 2283 HK | Buy | 377 | 3.55 | 4.1 | 15% | 7.7 | 6.4 | 2.3 | 2.3 | 29.7 | 35.7 |
| Ju Teng | 3336 HK | NR | 268 | 1.80 | NA | NA | 9.6 | 7.3 | 0.3 | 0.3 | 3.3 | 4.3 |
| FIH | 2038 HK | NR | 1,006 | 0.96 | NA | NA | - | - | - | - | - | - |
| Everwin | 300115 CH | NR | 1,920 | 14.99 | NA | NA | 35.9 | 27.4 | 2.9 | 2.6 | 8.2 | 9.9 |
| Lens Tech | 300433 CH | NR | 5,726 | 10.36 | NA | NA | 29.8 | 20.9 | 2.3 | 2.1 | 7.9 | 10.2 |
| Chaozhou Three | 300408 CH | NR | 5,265 | 21.46 | NA | NA | 26.6 | 22.2 | 4.7 | 4.1 | 16.8 | 18.0 |
| Casetek | 5264 TT | NR | 699 | 51.90 | NA | NA | 105.5 | 15.7 | 0.7 | 0.6 | 0.7 | 3.8 |
| Catcher | 2474 TT | NR | 5,604 | 227.0 | NA | NA | 11.8 | 9.4 | 1.1 | 1.0 | 9.4 | 11.4 |
| Jabil | JBL US | NR | 4,722 | 30.88 | NA | NA | 10.4 | 9.1 | 2.8 | 2.5 | 24.8 | 28.1 |
| Average | | | | | | | 25.7 | 13.3 | 1.9 | 1.7 | 12.1 | 14.5 |

Source: Bloomberg, CMBIS

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