

China Technology Sector

Apple another beat on iPhone/wearables

Apple posted FY1Q (CY4Q19) results with EPS of US\$4.99 (+19% YoY) and revenue of US\$91.8bn (+9% YoY), which are 9% and 4% ahead of consensus. For FY2Q20 guidance, Apple expects revenue of US\$63-\$67bn, with midpoint of US\$65bn (+12% YoY), 4% ahead of consensus at US\$62.3bn. Given better guidance, stronger iPhone shipment, wearable (Airpod/Watch) momentum and China sales recovery, we believe this is positive to Apple supply chain, including AAC Tech, Luxshare, FIT Hon Teng, BYDE, Tongda and Goertek. Recommend to accumulate after correction on recent Wuhan coronavirus.

- Better iPhone on lower price and China recovery; strong wearables continues despite Airpod/Watch shortage.** Key highlights from earnings call include 1) iPhone revenue returned growth (+8% YoY, vs -9% in FY4Q) due to strong low-priced iPhone 11, and more installment in US (Apple Card), 2) better China sales (+3% YoY, vs -2% in FY4Q) on price cuts and less trade tensions, 3) Japan down 10% YoY given new rules on carrier discounts, 4) continued wearables momentum (+37% YoY, vs +54% in FY4Q) despite Watch/Airpods supply shortages, 5) Service strength (+17% YoY, vs +18% in FY4Q) with double digit growth across all regions, 6) Service well on track to double 2016 revenue by 2020, 7) limited impact from Wuhan coronavirus and mitigate risks by shifting substitute component and production locations.
- Expect a strong 2020 backed by iPhone SE, 5G phones, AirPods Pro, Apple TV+.** Despite Apple's accelerated shift to service-led growth strategy, we believe iPhone shipment recovery, wearables demand and strong pipeline (esp. iPhone SE, AirPods Pro, 5G phones) will be positive to Apple supply chain throughout 2020E. We expect iPhone shipment decline to grow at double digit in next two quarters (+20%/10% YoY in CY1Q/2Q) and maintain 5% YoY growth in CY3Q/4Q.
- Continued iPhone/wearable growth is positive for supply chain; Prefer content/share gainers with YoY growth.** We believe better iPhone 11 sales is partly priced in, but upbeat guidance confirmed continued recovery for supply chain. Looking ahead, we expect new iPhone SE in 1H20 and four 5G phones in 2H20 will boost supply chain demand throughout 2020. For stocks, we prefer wearables-related names, such as Luxshare and Goertek, while we are also increasingly more positive on iPhone plays including AAC Tech on acoustics/ haptics, FIT Hon Teng on connectors, Tongda on iPhone /Macbook waterproof components, BYDE on OEM/ Watch/ accessories, and Luxshare on Airpod/acoustics/haptics/wireless charging.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY19E	P/E (x) FY20E	P/B (x) FY19E	ROE FY19E
AAC Tech	2018 HK	Sell	9,311	59.90	29.6*	-51%	33.2	25.3	3.3	3.0
FIT Hon Teng	6088 HK	Buy	2,301	2.60	3.8	45%	8.6	7.6	1.0	0.9
Tongda	698 HK	Buy	742	0.89	1.2	29%	6.9	5.9	0.8	0.8
TK Group	2283 HK	Buy	429	4.00	4.1	2%	8.7	7.2	2.6	2.6
BYDE	285 HK	Hold	4,886	16.86	18.4	9%	22.9	15.6	2.0	1.8
Luxshare	002475 CH	Buy	34,946	45.15	32.1*	-29%	48.5	35.3	9.2	7.4
Goertek	002241 CH	Hold	11,086	23.61	9.1*	-61%	62.1	54.9	4.7	4.5

Source: Bloomberg, CMBIS estimates, * TP under review

MARKET PERFORM (Maintain)

China Technology Sector

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Focus Charts

Figure 1: Apple's FY4Q19 (CY3Q19) results review

Apple Inc (AAPL US) US\$ bn	Actual FY1Q20	FY1Q19	YoY %	Consensus FY1Q20	Diff (%)
Revenue	91.8	84.3	9%	88.4	4%
EPS (cent US\$)	4.99	4.18	19%	4.56	9%
GPM	38.4%	38.0%	0.4ppt	38.0%	0.4ppt
Product					
iPhone	56.0	52.0	8%	51.5	9%
iPad	6.0	6.7	-11%	6.8	-12%
Mac	7.2	7.4	-3%	7.3	-2%
Wearables, Home and Accessories	10.0	7.3	37%	9.5	5%
Services	12.7	10.9	17%	13.0	-2%
Mix by product (%)					
iPhone	61%	62%			
iPad	7%	8%			
Mac	8%	9%			
Wearables, Home and Accessories	11%	9%			
Services	14%	13%			

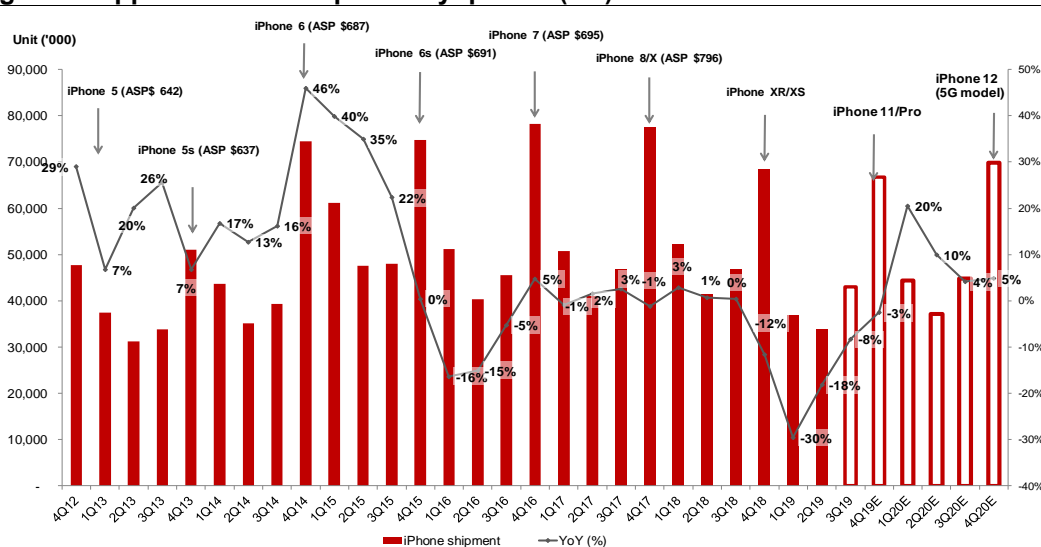
Source: Bloomberg, Company data, CMBIS

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	45%	3%			52%	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 (%)	
							FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Optics												
Sunny Optical	2382 HK	Buy	19,540	138.50	140.0	1%	39.6	27.2	11.4	8.8	28.9	32.4
Q Tech	1478 HK	Buy	1,873	12.58	16.7	33%	25.1	18.8	4.9	4.0	19.5	21.3
Truly	732 HK	NR	465	1.10	NA	NA	8.8	4.8	0.5	0.4	5.2	8.5
Cowell	1415 HK	NR	225	2.10	NA	NA	11.3	7.3	0.7	0.7	8.6	9.7
Largan	3008 TT	NR	22,152	4975	NA	NA	23.4	18.7	5.2	4.4	24.2	25.5
Genius	3406 TT	NR	2,172	590	NA	NA	26.8	18.9	5.5	4.4	23.0	28.5
Primax	4915 TT	NR	880	59.10	NA	NA	11.4	9.8	1.8	1.6	15.5	15.8
Lite-On	2301 TT	NR	3,882	50.00	NA	NA	12.8	12.1	1.6	1.5	12.0	12.3
O-Film	002456 CH	NR	7,034	17.92	NA	NA	87.4	33.0	5.3	4.7	6.0	14.0
Samsung Elec	009150 KS	NR	8,397	132500	NA	NA	18.8	19.0	1.9	1.8	10.9	9.5
Lg Innotek	011070 KS	NR	3,173	158000	NA	NA	21.2	12.8	1.6	1.4	8.1	12.0
Partron	091700 KS	NR	554	12050	NA	NA	8.8	8.3	1.7	1.5	22.3	19.8
Average							24.6	15.9	3.5	2.9	15.3	17.4
Acoustics/Haptics												
AAC Tech	2018 HK	Sell	9,311	59.90	29.6*	-51%	33.2	25.3	3.3	3.0	9.9	12.0
Goertek	002241 CH	Hold	11,086	23.61	9.1*	-61%	62.1	54.9	4.7	4.5	7.6	8.1
Shenzhen Sunwa	300136 CH	NR	6,167	44.00	NA	NA	40.3	29.7	9.0	6.9	23.2	24.4
Jinlong	300032 CH	NR	439	3.78	NA	NA	-	-	-	-	-	-
Merry	2439 TT	NR	1,125	165	NA	NA	12.8	11.5	2.9	2.8	24.7	25.1
Knowles	KN US	NR	1,879	20.52	NA	NA	18.3	15.9	1.5	1.5	8.8	9.1
Nidec	6594 JP	NR	39,902	14600	NA	NA	36.5	44.9	4.2	4.0	12.2	9.9
Alps Alpine	6770 JP	NR	4,698	2337	NA	NA	18.0	19.2	1.4	1.3	8.4	7.2
Average							31.6	28.8	3.9	3.4	13.6	13.7
Connector												
FIT Hon Teng	6088 HK	Buy	2,301	2.60	3.8	45%	8.6	7.6	1.0	0.9	12.1	12.2
Luxshare	002475 CH	Buy	34,946	45.15	32.1*	-29%	48.5	35.3	9.2	7.4	18.9	20.8
TE	TEL US	NR	32,798	98.10	NA	NA	17.8	19.1	3.1	3.0	17.4	15.8
Amphenol	APH US	NR	30,660	103.41	NA	NA	28.2	26.8	7.5	6.5	27.3	25.2
Delphi	DLPH US	NR	1,348	15.66	NA	NA	6.9	7.5	3.8	3.0	59.9	39.9
Average							22.0	19.3	4.9	4.2	27.1	22.8
Casing												
BYDE	285 HK	Buy	4,886	16.86	18.4	9%	22.9	15.6	2.0	1.8	8.7	11.6
Tongda	698 HK	Buy	742	0.89	1.2	29%	6.9	5.9	0.8	0.8	11.7	12.8
TK Group	2283 HK	Buy	429	4.00	4.1	2%	8.7	7.2	2.6	2.6	29.7	35.7
Ju Teng	3336 HK	NR	275	1.83	NA	NA	9.8	7.5	0.4	0.3	2.5	4.1
Everwin	300115 CH	NR	2,698	20.49	NA	NA	58.9	33.3	4.0	3.7	7.0	11.2
Lens Tech	300433 CH	NR	12,721	20.68	NA	NA	41.4	30.2	4.4	3.8	12.0	14.9
Chaozhou Three	300408 CH	NR	5,854	23.21	NA	NA	39.4	29.6	5.2	4.6	12.5	14.8
Casetek	5264 TT	NR	669	47.95	NA	NA	-	18.3	0.6	0.6	(1.3)	2.8
Catcher	2474 TT	NR	6,508	254.5	NA	NA	15.5	10.4	1.2	1.2	8.6	11.8
Jabil	JBL US	NR	6,290	41.36	NA	NA	13.9	11.4	3.7	3.2	24.8	28.7
Average							24.1	16.9	2.5	2.2	11.6	14.8

Source: Bloomberg, CMBIS, * TP under review

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