

Technology

Apple FY1Q24 beat on better margins and resilient service revenue, but China sales weakened

Apple reported FY1Q24 (CY4Q23) revenue of US\$119.6bn (+2% YoY) and EPS of US\$2.18 (+16% YoY), which are in line and 4% above consensus, mainly due to a favourable product mix and better leverage, despite weak China sales (-12.9% YoY) and one less week of sales compared with last year. For FY2Q24E, mgmt. expected overall revenue and iPhone sales to be both US\$5bn less YoY due to a high base in CY1Q23 caused by iPhone supply constraints, while the service segment revenue should increase YoY at a similar double-digit growth rate compared with the Dec quarter. Given Huawei's comeback in China and a lack of foldable phones in 2024, we believe iPhone shipments will face challenges in the near term, and Apple may focus on improving its shipment mix towards higher-end Pro models. For stocks, we maintain BUY on Luxshare/BYDE/FIT Hon Teng for market share gains in Apple supply chain (high-end iPhone/casing/AirPods), and stay HOLD on Sunny Optical/AAC Tech mainly for fair valuation.

- **FY1Q24 beat on better margins and resilient iPhone, partially offset by challenging iPad/wearables.** By segment, iPhone/Mac sales remained resilient with 6%/1% YoY growth, while iPad/Wearables declined 25%/11% YoY and Services stayed solid with 11% YoY growth. Mac sales benefited from the latest MacBook Pro models powered by M3 chips, and iPad/Watch continued to face challenges due to a lack of product launches. Services business growth accelerated to 11% YoY (vs. +8%/16% in CY2Q/3Q23), and numbers of transacting accounts/paid accounts have again set new records, each with double-digit YoY growth. While most geographic regions witnessed sales growth YoY, China region sales declined 12.9% YoY in FY1Q24.
- **Mixed outlook: margin expansion, solid service and Vision Pro sales, but weaker iPhone sales.** Mgmt. guided FY2Q24 revenue -5% YoY (~US\$5bn less YoY) mainly due to a high base in CY1Q23 caused by supply constraints, which is 6% below consensus, and GPM to come in at 46-47%, better than consensus of 45.3%. By segment, Apple expected iPhone sales to drop US\$5bn (-9.7% YoY) due to a challenging base from last year caused by COVID, and service revenue to grow by double digits. Apple Vision Pro is available at US stores starting today, and will expand to other countries later this year. Enterprise customers including Walmart, Nike, Vanguard, Bloomberg and SAP have started leveraging and investing in Vision Pro as the new platform to bring spatial computing experience to their customers and employees.
- **Stay selective given weaker iPhone sales; Prefer share gainers and non-iPhone expansion.** Given macro challenges and Huawei's market share gains in China, we prefer component names seeing market share gains and benefiting from spec upgrades. Reiterate BUY on Luxshare (OEM share gains), BYDE (Jabil's casing) and FIT Hon Teng (AirPods order wins), 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	ROE
Luxshare	002475 CH	BUY	26,182	26.25	47.0	79%	16.9 13.4	1.9 10.9	
BYDE	285 HK	BUY	7,867	27.95	45.9	64%	14.3 10.5	1.9 13.4	
FIT Hon Teng	6088 HK	BUY	904	0.97	2.1	112%	6.5 5.2	0.3 5.2	
Q-Tech	1478 HK	BUY	424	2.80	3.6	29%	10.0 5.2	0.6 5.9	
Sunny Optical	2382 HK	HOLD	6,908	49.25	50.7	3%	42.1 23.3	2.1 5.0	
AAC Tech	2018 HK	HOLD	2,667	17.36	14.0*	-19%	30.5 17.5	0.8 2.7	

Source: Company data, CMBIGM estimates, *TP under review

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6. Apple FY3Q23 in-line on record-high service offsetting soft iPhone/Mac/iPad sales - 4 Aug 2023 ([link](#))

Figure 1: Apple's FY1Q24 (CY4Q23) results review

Source: Bloomberg, company data, CMBIGM

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%	Connectors, wireless charging, accessories
Sunny Optical	2382 HK	2%	5%	15%	63%	15%	Camera modules, handset lens sets, auto lens/modules
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 materials
Q-Tech	1478 HK	-	5%	-	85%	15%	Camera modules/lenses, fingerprint modules, auto camera modules
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 modules
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

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

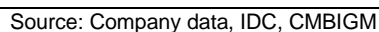


Figure 4: Peers comparison

			Mkt Cap	Price	TP	Up/Down	P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	(US\$ mn)	(LC)	(LC)	-side	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Optics												
Sunny Optical	2382 HK	Hold	6,908	49.25	50.7	3%	42.1	23.3	2.1	2.0	5.0	8.6
Q Tech	1478 HK	Buy	424	2.80	3.6	29%	10.0	5.2	0.6	0.5	5.9	10.3
Cowell	1415 HK	NR	1,804	16.54	NA	NA	27.5	16.4	4.2	3.4	14.9	22.3
Largan	3008 TT	NR	10,406	2,390.00	NA	NA	17.3	15.0	1.9	1.8	11.5	12.4
Genius	3406 TT	NR	1,419	393.00	NA	NA	14.9	14.7	2.1	1.9	14.2	13.6
Primax	4915 TT	NR	981	66.50	NA	NA	11.6	10.7	1.8	1.6	14.7	15.6
Lite-On	2301 TT	NR	8,250	109.50	NA	NA	16.5	14.6	3.0	2.7	18.4	20.2
O-Film	002456 CH	NR	3,063	6.75	NA	NA	-	39.9	7.6	7.1	(8.1)	8.8
Samsung Elec	009150 KS	NR	7,940	141,000.00	NA	NA	23.4	17.0	1.4	1.3	5.9	7.8
LG Innotek	011070 KS	NR	3,545	198,700.00	NA	NA	8.2	7.0	1.0	0.9	12.5	13.3
Partron	091700 KS	NR	362	8,160.00	NA	NA	14.2	9.7	1.0	0.9	7.0	9.8
Average							18.6	15.8	2.4	2.2	9.3	13.0
Acoustics/Haptics												
AAC Tech	2018 HK	Hold	2,667	17.36	14.0*	-19%	30.5	17.5	0.8	0.8	2.7	4.6
Goertek	002241 CH	Buy	7,275	15.28	19.2	26%	35.5	19.8	1.6	1.5	4.6	7.8
Luxshare	002475 CH	Buy	26,182	26.25	47.0	79%	16.9	13.4	1.9	1.6	10.9	12.3
Sunway	300136 CH	NR	2,208	16.39	NA	NA	20.1	15.6	2.2	1.9	10.8	12.2
Merry	2439 TT	NR	720	102.50	NA	NA	16.6	15.8	1.7	1.6	10.0	10.3
Nidec	6594 JP	NR	22,435	5,503.00	NA	NA	39.6	20.2	2.4	2.1	7.0	11.6
Alps Alpine	6770 JP	NR	1,619	1,069.50	NA	NA	9.1	-	0.6	0.6	6.2	(1.1)
Average							23.4	16.6	1.6	1.5	7.5	8.2
Connector												
FIT Hon Teng	6088 HK	Buy	904	0.97	2.1	112%	6.5	5.2	0.3	0.3	5.2	6.3
Luxshare	002475 CH	Buy	26,182	26.25	47.0	79%	16.9	13.4	1.9	1.6	10.9	12.3
TEL	TEL US	NR	43,927	142.25	NA	NA	21.2	18.8	3.9	3.2	19.1	18.5
Amphenol	APH US	NR	61,279	102.42	NA	NA	34.6	31.1	7.7	6.5	24.4	22.7
Average							19.8	17.1	3.4	2.9	14.9	15.0
EMS/OEM												
BYDE	285 HK	Buy	7,867	27.95	45.9	64%	14.3	10.5	1.9	1.6	13.4	15.7
Luxshare	002475 CH	Buy	26,182	26.25	47.0	79%	16.9	13.4	1.9	1.6	10.9	12.3
Hon Hai Precision	2317 TT	NR	45,498	102.50	NA	NA	10.8	9.6	0.9	0.9	8.9	9.4
Pegatron	4938 TT	NR	7,166	84.10	NA	NA	14.4	12.8	1.2	1.2	8.2	9.1
Wistron	3231 TT	NR	11,050	119.00	NA	NA	28.7	18.1	3.2	2.7	11.4	15.9
Average							29.0	20.9	6.6	5.0	13.6	19.9
Casing												
BYDE	285 HK	Buy	7,867	27.95	45.9	64%	14.3	10.5	1.9	1.6	13.4	15.7
Tongda	698 HK	Buy	113	0.09	0.2	87%	5.1	3.1	0.1	0.1	2.3	3.5
TK Group	2283 HK	Buy	148	1.39	3.1	122%	5.0	3.7	0.7	0.6	13.3	16.3
Everwin	300115 CH	NR	1,413	8.43	NA	NA	49.0	15.4	1.7	1.6	2.7	9.6
Lens Tech	300433 CH	NR	7,552	10.89	NA	NA	17.5	13.4	1.2	1.1	6.8	8.4
Chaozhou Three	300408 CH	NR	6,078	22.76	NA	NA	27.5	21.2	2.4	2.2	8.7	10.3
Catcher	2474 TT	NR	4,259	195.50	NA	NA	11.1	15.8	0.8	0.8	7.2	4.6
Jabil	JBL US	NR	16,752	131.34	NA	NA	15.4	14.6	6.1	13.8	43.5	51.0
Average							18.1	12.2	1.9	2.7	12.2	14.9

Source: Bloomberg, CMBIGM estimates, *TP under review

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