

China Technology Sector

Implications of China Jan smartphone shipment

China MIIT reported that Jan smartphone shipment declined 37% YoY to 18.3mn, due to CONV-19 impact since mid-Jan. This is within our/market expectations of 30-40% YoY decline in 1Q20 (vs IDC -30%; Strategic Analytics -30%; IHS -33%). Given near-term challenging earnings outlook and potential inventory correction running into 2Q20E, we think it is still early to position for sector rebound in the meantime. We expect further order cuts and earnings downgrades in next few weeks, and China 5G supply chain will remain under pressure, including Sunny Optical (2382 HK), AAC Tech (2018 HK) Xiaomi (1810 HK), BYDE (285 HK) and Q-tech (1478 HK).

- 5G shipment optimism starts to fade; Product launch to delay.** This is the first CATR datapoint for China smartphone market since CONV-19 outbreak, and we expect Feb-Mar shipment will decline at similar level of 30-40% YoY. Despite 5G shipment mix reaching 26% in Jan (vs 18% in Dec), we see further downside on consensus of 130-150mn (45-50% mix) for China 5G smartphone shipment in 2020 (vs 127mn our estimate). Our recent check suggested supply chain now expects 70% of production resumption by early-Mar, and return to normal production in 2Q20E. We are cautious on rapid 5G-driven recovery since several product launches in Feb are delayed (e.g. Oppo, Vivo) in light of sales weakness and potential supply shortage.
- Prefer Apple/Samsung names; HOVM to face rising inventory pressure.** In terms of demand, we believe Apple/Samsung are better positioned than peers given low China shipment exposure (15%/1% of mix), compared to (60%/60%/65%/32% for Huawei/Oppo/Vivo/Xiaomi). As for production, Samsung has lowest risk with 80%+ capacity outside China (mainly in Vietnam/India), while Apple/HOVM heavily rely on OEM/ODM factories located in China. We are most cautious about high channel inventory (2-3 months) in China, which may lead to more order cuts in next few months.
- Expect further earnings revisions; Recommend to stay on sideline.** In view of further earnings downgrade ahead, we expect range bounding for the sector in near term. We recommend to wait for more concrete guidance during March earnings period, which can provide better earnings visibility given that 5G upgrade trend remains intact. In medium term, we would take a more aggressive stance at either lower valuation or bottoming in earnings revisions for sector leaders such as Sunny Optical, BYDE and Q-tech.

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	8,760	55.80	29.6	-47%	31.0	23.6	3.1	9.9
Sunny Optical	2382 HK	Buy	18,521	128.0	140.0	9%	36.6	25.2	10.6	28.9
FIT Hon Teng	6088 HK	Buy	2,094	2.34	3.8	61%	7.8	6.8	0.9	12.1
Tongda	698 HK	Buy	682	0.75	1.2	53%	5.8	4.9	0.7	11.7
Q-tech	1478 HK	Buy	1,858	12.20	16.7	37%	24.3	18.2	4.7	19.5
BYDE	285 HK	Buy	4,531	15.78	18.4	17%	21.4	14.6	1.9	8.7

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

China Technology Sector

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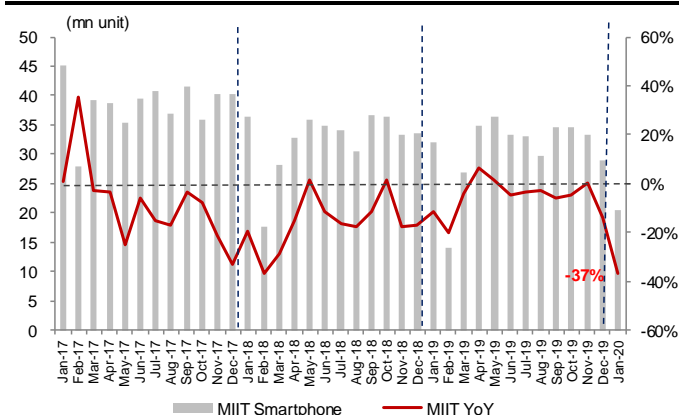
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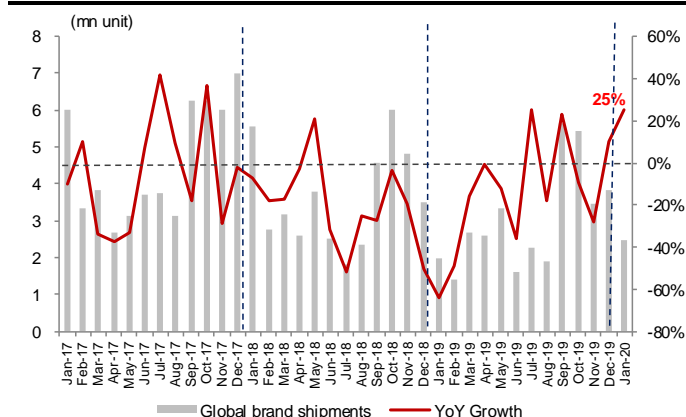
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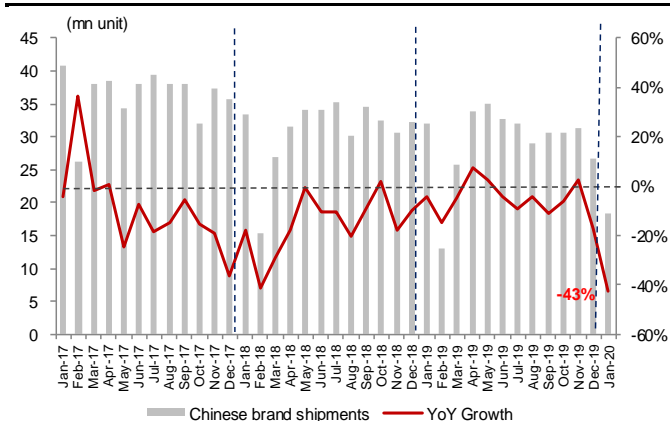
Focus Charts

Figure 1: China smartphone shipment trend (sell-in)


Source: MIIT CATR, CMBIS estimates

Figure 2: China handset shipment – Global brands


Source: MIIT CATR, CMBIS estimates

Figure 3: China handset shipment – Chinese brands


Source: MIIT CATR, CMBIS estimates

Figure 4: 5G phone shipment forecast by brand

	2019E	2020E	2021E	2022E
Samsung	6.5	47	105	146
Apple	-	68	140	153
Huawei	3.6	73	120	175
Oppo	1.0	17	44	98
Vivo	0.3	16	40	85
Xiaomi	1.3	18	44	78
Others	6.0	7	38	68
5G penetration	1%	18%	39%	59%
Global 5G shipment	19	245	531	804
China 5G shipment	14	127	241	383

Source: CMBIS estimates

Figure 5: 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 6: 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	18,521	128.00	140.0	9%	36.6	25.2	10.6	8.2	28.9	32.4
Q Tech	1478 HK	Buy	1,858	12.20	16.7	37%	24.3	18.2	4.7	3.9	19.5	21.3
Truly	732 HK	NR	490	1.17	NA	NA	9.0	5.3	0.5	0.5	5.2	8.5
Cowell	1415 HK	NR	204	1.94	NA	NA	10.2	6.6	0.6	0.6	8.6	9.7
Largan	3008 TT	NR	20,468	4610	NA	NA	21.8	17.5	4.9	4.1	24.1	25.3
Genius	3406 TT	NR	2,058	551	NA	NA	25.6	18.1	6.1	4.8	23.0	28.5
Primax	4915 TT	NR	754	51.80	NA	NA	9.8	8.9	1.6	1.4	15.5	14.7
Lite-On	2301 TT	NR	3,388	44.00	NA	NA	10.9	10.6	1.4	1.3	12.0	12.3
O-Film	002456 CH	NR	8,595	20.20	NA	NA	113.9	39.8	6.6	5.8	5.5	14.9
Samsung Elec	009150 KS	NR	8,661	138500	NA	NA	20.0	18.9	2.0	1.8	10.9	10.3
Lg Innotek	011070 KS	NR	2,862	144000	NA	NA	19.7	10.7	1.5	1.4	8.1	13.5
Partron	091700 KS	NR	451	10000	NA	NA	7.4	7.4	1.4	1.3	22.2	19.4
Average							25.8	15.6	3.5	2.9	15.3	17.6
Acoustics/Haptics												
AAC Tech	2018 HK	Sell	8,760	55.80	29.6	-47%	31.0	23.6	3.1	2.8	9.9	12.0
Goertek	002241 CH	Hold	12,600	25.98	*9.1	NA	68.4	60.4	5.2	4.9	7.6	8.1
Shenzhen Sunwa	300136 CH	NR	7,898	53.81	NA	NA	52.4	38.7	11.6	9.0	23.4	24.6
Jinlong	300032 CH	NR	525	4.38	NA	NA	-	-	-	-	-	-
Merry	2439 TT	NR	968	144.50	NA	NA	11.1	9.9	2.5	2.4	24.6	24.9
Knowles	KN US	NR	1,548	16.88	NA	NA	15.0	14.2	1.2	1.3	8.8	8.8
Nidec	6594 JP	NR	36,380	14070.00	NA	NA	33.8	42.1	3.9	3.7	12.2	9.8
Alps Alpine	6770 JP	NR	3,533	1842.00	NA	NA	13.8	20.1	1.1	1.0	8.4	5.6
Average							32.2	29.9	4.1	3.6	13.6	13.4
Connector												
FIT Hon Teng	6088 HK	Buy	2,094	2.34	3.8	61%	7.8	6.8	0.9	0.8	12.1	12.2
Luxshare	002475 CH	Buy	38,471	51.00	*32.1	NA	54.8	39.8	10.3	8.3	18.9	20.8
TE	TEL US	NR	29,435	88.09	NA	NA	16.0	17.0	2.8	2.7	17.4	15.9
Amphenol	APH US	NR	29,116	97.67	NA	NA	26.6	25.6	7.1	6.2	27.3	25.2
Delphi	DLPH US	NR	1,227	14.26	NA	NA	6.1	6.7	3.2	2.7	54.3	41.1
Average							22.3	19.2	4.9	4.1	26.0	23.1
Casing												
BYDE	285 HK	Buy	4,531	15.78	18.4	17%	21.4	14.6	1.9	1.7	8.7	11.6
Tongda	698 HK	Buy	682	0.75	1.2	53%	5.8	4.9	0.7	0.6	11.7	12.8
TK Group	2283 HK	Buy	362	3.37	4.1	21%	7.3	6.1	2.2	2.2	29.7	35.7
Ju Teng	3336 HK	NR	265	1.76	NA	NA	9.5	7.2	0.3	0.3	2.5	4.1
Everwin	300115 CH	NR	3,372	25.54	NA	NA	73.9	41.5	5.1	4.7	7.0	11.2
Lens Tech	300433 CH	NR	13,481	22.61	NA	NA	44.0	32.4	4.7	4.1	11.7	14.3
Chaozhou Three	300408 CH	NR	6,746	27.80	NA	NA	44.3	33.8	6.1	5.3	12.5	14.8
Casetek	5264 TT	NR	603	43.65	NA	NA	-	20.1	0.6	0.6	(1.3)	2.8
Catcher	2474 TT	NR	6,436	260.00	NA	NA	15.3	10.4	1.2	1.2	8.6	11.8
Jabil	JBL US	NR	5,428	35.69	NA	NA	12.0	9.9	3.2	2.7	24.8	28.7
Average							25.9	18.1	2.6	2.3	11.6	14.8

Source: Bloomberg, CMBIS, * TP under review

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